

**ASSESSING EFFORTS TO ELIMINATE IMPROPER
PAYMENTS**

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION, FEDERAL SERVICES, AND
INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

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HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
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ASSESSING THE EFFORTS TO ELIMINATE IMPROPER PAYMENTS

WEDNESDAY, MAY 25, 2011

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m., in room 342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, Pryor and Brown.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. The hearing will come to order.

Welcome, one and all, to our witnesses, to our guests. Glad you could join us today.

I want to thank our staffs, both Democrat and Republican, for their work in preparing for this hearing, not our first hearing on trying to reduce or eliminate improper payments, but an important hearing. And while the amount of improper payments actually is growing, I think because we are requiring or having more agencies that are complying with the law and we have amended the law to make the net a little bigger. Overall, I am encouraged that we are starting to make some progress.

Today's hearing will focus on the very high levels of improper payments that are being reported now by Federal Agencies as well as our efforts to try to curb these wasteful, and sometimes fraudulent, payments.

As we hold this hearing today, our Nation faces considerable economic challenges although I am encouraged. I have just been on the phone today with some folks from the financial services industry, talking in one instance about what is going on in terms of meeting mortgage payments and delinquencies on mortgage payments. Actually, it has been encouraging news. It was reported to me as sort of the canary in the coal mine but in a positive way, in terms of early indicators. So we are encouraged that things are getting better, too slowly, but we are making some progress.

But partly as a result of the challenges that we continue to face, we have record budget deficits as we know, and our national debt stands at about \$14.3 trillion dollars, well over double what it was just 10 years ago.

(1)

And as you are all undoubtedly aware, just a few days ago we reached the Federal debt ceiling. The legal limit for borrowing money by our Federal Government has been met. The last time the debt was this high, at least as a percentage of Gross Domestic Product (GDP), I think was at the end of World War II. That level of debt was not sustainable then, and I think most of us would agree it is not sustainable today.

A wide variety of ideas have been put forward on how to reduce our budget deficit and begin whittling down our debt. Last fall, a majority of the bipartisan deficit commission appointed by President Obama provided us with a roadmap to reduce the cumulative Federal deficits over the next decade or so by about \$4 trillion—about two-thirds on the spending side, one-third on the revenue side. A number of the steps that were in their suggestion we would have to take would be painful if we are to meet that goal.

While most Americans want us to reduce the deficit, determining the best path forward will not be easy. I was at a gathering where we were having a pollster present some polling data on the deficit:

Do people being polled across the country think the deficit is a problem? Yes, they do.

Do they think it is something we should do something about? Yes, they do.

Should we do it on the spending side or the revenue side? More spending, some revenue, but some of each.

And then the pollster went literally through a whole litany of spending programs, whether it is domestic discretionary spending, defense spending, entitlement program spending, where we should making the cuts.

And one by one by one, people said no, do not cut there, do not cut there, do not cut there, and do not raise taxes.

And the pollster finished his presentation, and he said to a group of my colleagues and others, he said any questions or any comments?

And one of the people in the room said we need a new public. [Laughter.]

I do not know if we do or not, but it is a pretty good line.

Many Americans believe that those of us here in Washington are not capable of doing the hard work that we were hired to do, and that is to effectively manage the tax dollars that we are entrusted with. They look at the spending decisions we have made in recent years, and they question whether the culture here is really broken. They question whether or not we are capable of making the kind of tough decisions that most families make with their own budgets. And you cannot blame them for being somewhat skeptical.

I think we need to really change the culture here and to move away from what I describe as a culture of spendthrift and to move us toward a culture of thrift, and that is what we endeavor to do in this Subcommittee. We try to do it by partnering with the Administration, by partnering with the Office of Management and Budget (OMB), by partnering with the Government Accountability Office (GAO), by partnering with Inspectors General (IGs) all across the Federal Government and all the different departments, and we partner with a bunch of nonprofit groups that are inter-

ested in waste and eliminating waste. It is a good way to increase our leverage and at the end of the day to get some things done.

And actually we are making a little bit of progress. I am encouraged by that.

I have said here many times we need to look in every nook and cranny of the Federal Government, all of our spending, whether it is domestic or defense or entitlements, tax expenditures, and basically ask this question: Is it possible to get a better result for less money, or maybe a better result for the same amount of money?

But even before we start on that important work, we need to sharpen our pencils and stop making the kind of expensive avoidable mistakes that lead to improper payments.

Every year for a number of years, our friends at GAO have been looking at improper payments, and Senator Coburn and I wrote a change to the law that was adopted and signed by President Obama last year. We know that as of last year, a number that is pretty hard to miss, there was \$125 billion in improper payment. I would like to say that is all. They are not reporting all improper payments. We have some missing returns, if you will, from the Department of Defense (DOD). I do not think that includes the Medicare Part D prescription drug program, and there are some other outliers that are not in yet. But it is a whole lot of money.

Even in a big State like Massachusetts, that is a lot. That is real money.

These improper payments come from over 70 programs at 20 different agencies. They include programs like Medicare and Medicaid, civilian and military pay at the Department of Defense and Federal Emergency Management Agency (FEMA), just to name a few.

And improper payments—sometimes people say to me: Well, what is counted as an improper payment, or maybe what is not?

But an improper payment occurs, as most of you probably know, when an agency pays a vendor for something it didn't receive or, maybe even pays them twice. It can occur when a recipient has died and is no longer eligible for receiving a payment, or when a vendor owes the government money and legally should not be getting a payment until that obligation to the government has been met.

These are the kinds of mistakes that occur every day across government. If the truth were known, it probably also occurs every day at big companies. And we need to work on those with the kind of vigor and commitment that those big companies work on them.

What disturbs me about the problem here in the Federal Government is that we seem to make these kinds of mistakes at a rate that is much higher than businesses and higher than the average family would tolerate or could afford.

We throw big numbers around Washington all the time. So I want to take a moment just to put things in perspective, as I have in the past at hearings of this nature.

The \$125 billion figure is more than the gross domestic product of each of 120 other countries around the world. In fact, for a comparison even closer to home, \$125 billion would fund the entire State of Delaware's operating budget for about 40 years. But I should point out that—and Arkansas's budget for probably about 3

years. I should point out to our Ranking Member that it would not only fund the State of Massachusetts for well, not 40, but 4 years, but yours is a big State.

So it is easy to see how urgent it is that we step up the pace of our efforts to prevent improper payments and eliminate, to the best of our abilities, the management problems that lead to waste and ultimately to fraud. Success in doing so will go a long way toward helping us to reduce our deficit.

The good news is that we are seeing some renewed commitment to reducing improper payments and we have made some progress. A number of agencies have reduced their mistakes, and saved money since we first began to shine a spotlight on improper payments during the Bush Administration.

Today, we have been joined by several witnesses who are each key players in helping the government successfully identify, decrease and even eliminate improper payments in the Federal Government.

A new law that I mentioned earlier, that I co-authored with Senator Coburn and a number of our colleagues on this panel, is moving us even further along. The Improper Payments Elimination and Recovery Act, signed into law by President Obama last summer, requires more transparency from agencies with regard to waste and fraud within their programs. It also forces managers to take additional steps to end practices that lead to improper payments and, where appropriate, recover the funds that they spend. And we also say we introduce into the equation here new criteria on which managers are evaluated, and that includes the rigor with which they enforce the new law.

In addition, our witnesses today will talk about some specific ideas, well, at least one specific idea called the "Do Not Pay" List. The idea of the Do Not Pay List is straightforward and logical. It would require that Federal agencies first check against a centralized Federal database, the Do Not Pay List, to better ensure that we are not paying recipients who are ineligible for payments.

Of course those watching this hearing may ask the obvious question: Why would a Federal agency ever pay an individual who has died or is a debarred Federal contractor, for example?

And unfortunately, the answer is that all too often agencies simply do not do a very good job of coordinating their efforts to prevent improper payments or communicating about best practices. Many also have antiquated databases and computer systems for tracking basic payment information. The Do Not Pay initiative is a major attempt to fix this frustrating problem.

And we are here today in large part because I believe that we have a moral imperative to ensure that scarce resources that we do put into our Federal programs are well spent. I think my colleagues agree with that. It is the right thing to do on behalf of the taxpayers who entrusted us with their hard-earned money. We must use every tool available to bring our fiscal house back to order and give the American people the government that they deserve and, frankly, can afford.

Now I want to turn to Senator Brown and then to Senator Pryor for any comments that they would like to make.

Gentlemen, welcome. Thanks so much for being here and for your active involvement.

OPENING STATEMENT OF SENATOR BROWN

Senator BROWN. Thank you, Mr. Chairman. Sorry I was a little late. I am having one of those days.

But I want to thank you for holding this hearing. And it is funny, listening to you talk. I appreciate your personalization of that and pointing out how much we could be doing with the money that we are inappropriately paying.

I mean how many people listening or in the audience have actually got a bill or a credit card or something and you look at that charge and its like, oh my, that is not accurate? And then you spend like 4 or 5 hours, even if it is just a finance charge you have received and it is for \$7, but you will spend 3 hours getting that done because you have won a battle and it is a you over the machine type of thing.

And yet, here we are in the Federal Government, \$125 billion, and it is like oh, yes, now we will get to it. It is getting larger.

I do want to say that through your efforts, sir, and Senator Coburn's and others, we have had some success.

And I know that I do appreciate the efforts of Mr. Werfel and the Office of Management and Budget to take this effort very seriously. I am encouraged by that, by the new initiatives that you have just referenced, the Do Not Pay List, for example.

And Mr. Robert Hale's part, for your quick response to our letters, shows me that the DOD is also putting more attention to this problem. That is why I was glad to co-sign a letter, along with you, Mr. Chairman and others, asking DOD to provide that inquiry as to what the status is and how it is going to fix the problem.

And quite frankly, Mr. Chairman, I think we should do this with every department and ask them what are their plans because I have said it before. Here we were a couple weeks ago, wrestling about \$61 billion. We are going to shut down the government. Remember that?

And yet, here we are. We are giving away \$125 billion through whatever means, whether it is fraud, waste and abuse, just improper payments, just a mistake, however you want to phrase it. It just makes no sense to me. So I appreciate the effort.

I have a more detailed opening which I will make part of the record, but I want to just hear the witnesses and move on. Thank you.

Senator CARPER. That is great. And your entire statement will be made part of the record.

Mark, welcome. Thank you both. Any statement you would like to offer, please?

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. I do not. I just want to thank you, and thank both of you, for your leadership on this, and I look forward to hearing what the panel has to say today.

I think it is very important that we keep our eye on the ball. As Senator Brown said, it is not always easy to do around here for

some reason, but anyway, thank you for this hearing and thank you for holding our feet to the fire on this.

Senator CARPER. You bet. Thanks for being part of this team.

I am just going to introduce our witnesses from our left to our right, from your right to your left.

And our first witness today will be probably someone we have seen before here, Danny Werfel, and we are delighted to see again our Controller at the White House Office of Management and Budget. You are nice to come.

He is responsible for coordinating the OMB's efforts to initiate governmentwide improvement in all areas of financial management including financial reporting, improper payments and real property management—all those issues that we are deeply involved in here as we get to work with him a lot. Those are important issues. I think they are important to the Subcommittee. They are important to the Committee. They are important to all of us, whether you serve here or not.

Mr. Werfel is a frequent witness here before this Subcommittee and someone we very much enjoy working with, so thanks so much.

Next, I would like to introduce from the Department of the Treasury, Richard Gregg, and Mr. Gregg is the Fiscal Assistant Secretary. Fiscal Assistant Secretary. How long have you been Fiscal Assistant Secretary?

Mr. GREGG. Just 2 years. I retired after a long career in Treasury and came back 2 years ago.

Senator CARPER. So you failed at retirement, is that it?

Mr. GREGG. Yes. [Laughter.]

Senator CARPER. Mr. Gregg is responsible for developing policy on payments, on collections, on debt financing operations, on electronic commerce, on governmentwide accounting and government investment fund management at Treasury. That is a lot.

And he is a busy fellow these days, and we appreciate very much your being with us, sir.

Robert Hale, no stranger here, Under Secretary of Defense and Comptroller, as well as the Chief Financial Officer (CFO), at the Department of Defense. That is a big job, responsible for the Department's financial policies, for financial management systems and business modernization efforts. He has come before our panel, again as I said before, to discuss the Department's financial management.

Mr. Hale was an officer in the Navy—go Navy—and he has a long history of working with the Department of Defense on financial management improvements. He also worked at the Congressional Budget Office (CBO).

We thank you for your service and thank you for joining us today.

Next, Mr. Calvin L. Scovel, III. We have a new intern in our office. He is also the Third, and I said what should I call you?

He said you may call me Trip.

And I said would that be with one P or two?

And he said just one.

So we have a Trip. And he is. [Laughter.]

But he is a good man. He is a very good man.

Calvin Scovel is the Vice Chairman of the Recovery Accountability and Transparency Board (RATB) and Inspector General of U.S. Department of Transportation (DOT). These positions are his second career. He has a distinguished military history serving as a Marine judge advocate and retiring as a brigadier general in the Marine Corps. Is that right?

That is great. He has us outranked, Scott.

Well, you were a general, were you not? Attorney general. [Laughter.]

That tradition of service continues today in his family. One of your two sons serves as a police officer, yes, and another is an officer in the Marine Corps who graduated from the Naval Academy. So that is good for your family.

Where is your son serving now?

Mr. SCOVEL. He is in the Infantry Officer Corps, sir, down in Quantico, ready to go to 5th Marines at Camp Pendleton and next year to Afghanistan.

Senator CARPER. All right. We were just over there. Scott and I have been before, and I know Senator Pryor has been there. Very impressed a couple weeks ago when I was there. With our men and women who are serving, very impressed.

Mr. Scovel, again, we thank you for your time and for your service to our country.

And finally, Mr. Kelly Croft, Social Security Administration (SSA). We welcome you, Mr. Croft. I believe you are the Deputy Commissioner for Systems at the Social Security Administration, and you have worked at the Social Security Administration for, it says here, 30 years. Is that right?

Mr. CROFT. Yes.

Senator CARPER. Did you start as like right out of school?

Mr. CROFT. Pretty much.

Senator CARPER. OK. Middle school? [Laughter.]

And you led many important initiatives including electronic disability folders and Medicare modernization. We are happy that you are here.

Your entire statements will be made part of the record. Feel free to summarize. If you are much over 5 or 6 minutes, we might try to rein you in, but up to that you are in good shape.

We are going to start with votes at about, I am told, 5. So we should have a chance to get all this in and make our goals as well.

So thanks. Please begin.

**STATEMENT OF DANIEL I. WERFEL,¹ ACTING CONTROLLER,
OFFICE OF MANAGEMENT AND BUDGET**

Mr. WERFEL. Chairman Carper, Ranking Member Brown, Senator Pryor and another distinguished Members of the Subcommittee, thank you for inviting me to testify today.

This Subcommittee has been at the forefront of moving us forward in addressing improper payments, and I look forward to continuing to work together with you on this problem. Last August, I spoke before you about our efforts to prevent and recapture im-

¹The prepared statement of Mr. Werfel appears in the appendix on page 44.

proper payments, and I appreciate the opportunity to testify before you again.

As you have mentioned, Senator, one of the biggest sources of waste and inefficiency within the Federal Government is the amount we pay out each year in improper payments. In Fiscal Year (FY) 2010, Federal agencies estimated that approximately \$125 billion in improper payments were made to individuals, organizations and contractors. Although not all errors are fraud, all payment errors degrade the integrity of government programs and compromise citizens' trust in government.

As part of the Administration's Accountable Government Initiative, we have set aggressive goals to prevent \$50 billion in improper payments and recapture at least \$2 billion in improper payments between FY 2010 through FY 2012. These goals represent a significant acceleration in increase of recoveries from the previous several years.

In addition to the enactment of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), as well as putting forward administrative, legislative and funding request in the Fiscal Year 2012 President's Budget, the Administration is already taking several steps to prevent, reduce and recapture improper payments, which I would like to briefly highlight.

For example, in November 2009, the President issued an Executive Order (EO) on Reducing Improper Payments. The Executive Order aims to reduce and prevent improper payments by enhancing transparency, increasing agency accountability and exploring incentives for State and local governments to reduce their error. The order represents a fresh approach to addressing improper payments and emphasizes the importance of detecting fraud, averting improper payments and improving payment accuracy without making government programs harder to navigate.

In addition, this Administration has made leveraging technology a major focus for addressing improper payments. Technology was a central theme of the Executive Order which required OMB to work with agencies to identify new forensic tools and technologies.

Last June, the President issued a memorandum to agencies to enhance payment accuracy. As a result, we have created an initial portal called *VerifyPayment.gov*, which will serve as a single source through which all agencies can check the status of potential contractor, grantee or individual beneficiaries by linking the agency to relevant eligibility databases such as the Social Security Administration's Death Master File or the General Service Administration's (GSA) Excluded Party List.

While the initial portal has been built, the Treasury Department's Bureau of Public Debt (BPD) is responsible for enhancing the portal and developing the operations center that will utilize forensic technology. In fact, the implementation of this initiative will have several components to be executed in phases. The next step for expanding *VerifyPayment.gov* is to connect all needed data sources and create an operations center that will leverage forensic technology to assist agencies in identifying, preventing, reducing and recapturing error.

In addition, other phases will include conducting pilot tests of the portal by Federal agencies, addressing implementation issues and

developing capabilities for automating the checks by agencies' systems. The automation phase would incorporate cutting-edge fraud technology, like those utilized by the Recovery Board, to further reduce the number of improper payments.

I want to also highlight that last month OMB released its guidance on implementing IPERA. The guidance ensures that agencies are properly assessing risk in their programs, measuring and reporting improper payments for required programs and establishing corrective action plans and reduction targets to drive agency performance. We have already been answering many questions from agencies and have been meeting with them to discuss the new requirements.

I want to thank you again for inviting me to testify here today, and I look forward to answering any questions that you may have.

Senator CARPER. All right. Thanks for your testimony, and we will look forward to the Q and A's.

Mr. Gregg, please proceed.

**STATEMENT OF HON. RICHARD GREGG,¹ FISCAL ASSISTANT
SECRETARY, U.S. DEPARTMENT OF THE TREASURY**

Mr. GREGG. Good afternoon, Chairman Carper, Ranking Member Brown, Senator Pryor. It is a great opportunity to testify today on Treasury's work to help ensure the validity of government payments.

The Administration set a very high priority on the importance of reducing improper payments. In the June 2010 memorandum, President Obama reinforced his commitment to eliminate waste, fraud and abuse in Federal programs, including reducing and capturing erroneous payments. There are many causes of improper payments, but whatever the cause we can all agree on one thing, that the amount of those payments remains unacceptable and immediate steps need to be taken to reduce them.

In 2010, Treasury supported an OMB initiative to examine improper payments. The Treasury-led work group identified key pieces of information that could help solve this problem. If agencies have access to accurate and timely data on death, employment status, income levels, incarceration and residents of dependent children as well as information on whether or not applicants are already receiving benefits and whether applicants are suspended or disbarred from doing business with the Federal Government, the number of improper or erroneous payments could be drastically reduced.

Rather than trying to reduce improper payments using only an expensive, and in many cases unsuccessful, pay-and-chase fund recovery model, we will work with agencies to help validate payment data before the payments are made. Our goal is to get accurate data in the hand of agencies early in the decisionmaking process for payment and also prior to making contract awards.

OMB has requested Treasury to begin developing a single point of entry or verification portal where agencies can verify information about potential recipients of Federal payments. Treasury will also

¹The prepared statement of Mr. Gregg appears in the appendix on page 51.

provide a risk modeling capability and provide access to the centralized analytic center.

To the extent permitted by law, the center will provide Federal and State agencies a one-stop shop for information and fraud detection tools to help reduce erroneous or improper payments. We envision a business solution where key data from many sources of information can be accessed through various databases or through queries against portals that are already commercially available. A call center will be established to assist users, support in-depth analysis or proactively investigate patterns of behavior.

Our plan is for Treasury to work with agencies to expand their participation, both as data users and as data providers. The new business solution can accomplish some of these goals within existing law, but it is likely that new legislation will be required to enable Treasury and other agencies to share data and through a more streamlined process. Treasury is working with OMB to draft legislation right now, and we of course, look forward to working with Congress on that legislation.

Treasury's overall goal for this initiative is two-fold—to help agencies achieve the Administration's goal of reducing improper payments by \$50 billion and to do this while safeguarding the privacy of individuals. Managing this data is an enormous responsibility and requires good management, strong controls and a deep commitment to the importance of safeguarding sensitive information. Nevertheless, we feel that information sharing is a very important element, and perhaps the most element, to help us reduce improper payments.

Treasury is designing the portal so the decision to make a payment or to contract or enroll a program applicant resides in the hands of those who best know and are responsible for the program—the individual agency. Treasury's role is to assist OMB and the agencies in making payments to only those who should receive them.

Thank you for the opportunity testify. I would be happy to answer any questions.

Senator CARPER. You are welcome and thank you very much for testifying.

Mr. Hale, please proceed.

STATEMENT OF HON. ROBERT F. HALE,¹ UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF DEFENSE

Mr. HALE. Well, thank you Mr. Chairman, Ranking Member Brown, Senator Pryor. I appreciate the chance to discuss the actions we are taking to eliminate and control improper payments across the Department.

Improving financial management in DOD represents one of my highest priorities as the Chief Financial Officer of the Department. I regard improper payments as a cornerstone of this broad effort, so I am pleased today to report that I believe DOD currently has a strong program to identify, report, eliminate and recover improper payments.

¹The prepared statement of Mr. Hale appears in the appendix on page 55.

Based on our current reporting methods, we estimate that 1 to 2 percent of our payments are classified as improper and most of those are recovered, I would say probably 85 to 90 percent of them are recovered often quite quickly. Now of course, the only appropriate goal for improper payments is zero, and as I will indicate in my remarks today, we are taking steps to further improve our program.

To provide perspective, I note that our improper payment percentage is low in comparison to overall Federal levels. I believe our colleagues at the Office of Management and Budget generally agree that DOD has a strong program. And, it is important to note that DOD's improper payments are not on OMB's list of high-error programs. Indeed, OMB has identified some of the techniques we use—and I will describe one of them in a moment—to control improper payments as best practices.

Our success with improper payments is particularly noteworthy because of the size and complexity of the Department's payments. The Defense Finance and Accounting Service (DFAS), which disburses about 90 percent of our total payments, disbursed a total of \$578 billion last year, roughly \$3 billion every working day. We not only disburse very large sums; we also make payments that are among the most complex in government.

I would like to take just a few moments to highlight some of the key areas and strengths in our program and also areas where we plan further improvements including full implementation of the IPERA legislation. Let me turn first to commercial payments to contractors. That is about two-thirds of our total payments.

For commercial payments we make heavy use of prepayment screening. We are trying to stop these before they happen rather than chase them afterward. One especially important tool is the Business Activity Monitoring (BAM), software program that DOD introduced in August 2008. BAM is an automated prepayment mechanism that uses business rules to flag, for human review, payments that may be improper.

So if BAM saw two payments that were the same size in a similar timeframe it would flag them for human review. It does not mean they are improper, but they ought to be looked at.

When coupled with diligent work by the Defense Finance and Accounting Service technicians, BAM has prevented more than \$3 billion in improper payments in little more than 2½ years. For those systems that are covered, and about 90 percent of our commercial payments are covered by BAM, we think it has essentially eliminated duplicate commercial payments based on internal reviews. And that is, for us, a major achievement.

But we are not resting on our laurels. We continue to refine the logic to catch still more improper payments and to expand BAM to all, to handle all commercial payments.

Because we have BAM and what we believe are effective prepayment measures, we have historically not used post-payment statistical sampling for commercial payments. This summer though, we plan to begin using post-payment sampling as part of our efforts. We hope to have it in place by the fourth quarter of this fiscal year for the largest commercial pay systems so that we fully implement the IPERA legislation that you enacted.

On civilian and military pay, we do use post-payment sampling, so we are compliant already with that portion of IPERA.

I think when the public hears the words “improper payment,” it probably thinks of over-payments that maybe are never recovered. In fact, for military pay, two-thirds are underpayments, often the results of a miscalculation of leave where service member returns to Reserve/Guard from active duty. It is usually our pay systems, personnel systems did not get, say, a promotion in time, so we do not pay it that time. It is probably no surprise to you we hear quickly from the individuals involved, and we usually fix those within a pay period or two.

DOD travel payments are also subject to monthly statistical sampling, so we are consistent with IPERA there.

And we have begun using automated file matching, between travel systems to prevent duplicate reimbursements again to try to catch these before they happen, so we are not chasing them afterward.

Another category of payments is retiree and annuitant pay where our focus is on recapturing payments when we do not get timely notice that the individual is deceased.

And there are a lot of smaller categories, but they are large in absolute terms—Army Corps of Engineers (ACE), our TRICARE health system—where we think in most cases, not all, we have good controls in place to prevent improper payments.

Despite what we at DOD consider a strong program, two recent audits have cast doubt on that program. My time is running out. I am not going to go through them, but let me just say—and I will answer your questions if you would like—the Department of Defense IG audit and the GAO audit we feel were overstated and, in some ways, misleading.

More generally, DOD has in place an aggressive program to improve financial information and move toward meeting government audit standards, which are indeed based in many cases based on commercial standards. We call this the Financial Improvement and Audit Readiness Program. It is a major effort to move us toward auditability. A cornerstone of that program, or an important part of it, will be continued efforts to improve our control over improper payments and to fully implement the IPERA legislation.

So after my other colleagues complete their statements, I would welcome your questions.

Senator CARPER. All right. We will welcome the opportunity to ask them. Thank you for that testimony.

Mr. Scovel, please proceed.

**STATEMENT OF HON. CALVIN L. SCOVEL, III,¹ VICE CHAIRMAN,
RECOVERY ACCOUNTABILITY AND TRANSPARENCY BOARD**

Mr. SCOVEL. Mr. Chairman, Ranking Member Brown, Members of the Subcommittee, thank you for this opportunity to appear before you in my role as Vice Chairman of the Recovery Accountability and Transparency Board.

A key responsibility of the Board is to coordinate oversight of recovery funds, to prevent fraud, waste and abuse, and provide for accountability. My testimony today will focus on our efforts to combine law enforcement and technology to track the quick disbursement of billions of recovery dollars.

Early on, the Board recognized that the traditional pay-and-chase paradigm for pursuing misspent funds forfeited multiple opportunities to thwart fraud before payments were made to ineligible parties. To stop fraud in its tracks, we built the Recovery Operations Center (ROC) which combines traditional law enforcement analysis with sophisticated software tools, government databases and open-source information.

Through the Operations Center, the Board's analysts look for criminal convictions, lawsuits, tax liens, bankruptcies, risky financial deals, suspension and debarment proceedings, and other early warning signs of trouble. The risk-relevant global information on entities receiving recovery funds has allowed investigators to expose suspicious relationships between parties that may not have been transparent at the time of contract or grant award. It has also allowed them to target limited government oversight resources where they are most needed.

Since the Board's inception about 2 years ago, more than 200 hotline complaints from the public have been referred to appropriate law enforcement entities for further inquiry, and nearly 400 analyses have been conducted in response to agency requests for assistance, along with many hundreds of analyses generated by Board staff.

In one case, a U.S. Attorney requested an analysis of a real estate development company. A Board analyst discovered that the company discovered that the company had a \$9.5 million grant pending from the Department of Housing and Urban Development (HUD) through the State of Indiana. The analysis revealed that the company was a joint venture with a firm owned by several individuals who had been convicted of fraud and embezzlement in 2006, and the U.S. Attorney was unaware of their relationship with the company and its owner.

In another case, an Assistant U.S. Attorney requested an analysis of six people indicted for fraud-related crimes involving Medicare. A Board analyst tied those individuals to 120 medical businesses, about a quarter of which had been unknown to the prosecuting attorney. This new information can now be used to strengthen a criminal sentence.

Another 260 leads have been generated by the Board through its review of recovery awards, some of which ultimately resulted in rescinded recovery contracts.

¹The prepared statement of Mr. Scovel appears in the appendix on page 65.

For example, a construction company had much of its \$9 million in recovery contracts rescinded after a Board investigator found that the firm had been suspended from doing business with the Federal Government.

In another case, an agency rescinded a recovery contract after a Board investigator determined that a \$1 million set-aside contract was awarded to a company that no longer qualified as a small business because the company's ownership had changed.

Last year, Board Chairman Earl Devaney testified before this Subcommittee that the Operations Center's tools were being pilot-tested at the Centers for Medicare and Medicaid Services (CMS). In the pilot, the Centers partnered with the Board to investigate a group of high-risk providers that had been accepted into the Medicare program. At the time of Chairman Devaney's testimony, the pilot had not been completed. I can now tell you that Operations Center data confirm that several providers were banned from doing business with the government at the time they were enrolled in the program.

Our analysis also identified a pattern of Medicare fraudsters using legitimate doctors' medical identification numbers in States far removed from where those doctors had their true practices.

The Board is also working with the Veterans Affairs Office (VA) of Inspector General to oversee the more than \$1 billion in sole-source and set-aside recovery contracts that have been awarded to service-disabled, veteran-owned small businesses. To date, Board investigators have identified more than 150 potential shell companies that were set up to defraud the government, approximately half of which were awarded more than \$1 million each in recovery funds.

Earlier this year, the Board began a pilot program to test the concept of granting remote access to the Operations Center's tools to investigators in several Offices of Inspectors General (OIG), and perhaps ultimately to agency procurement and grant officials as well. Trained personnel at the four pilot Offices of Inspectors General, all of which have recovery fund oversight responsibilities, can now use a secure portal to scan and analyze Operations Center data.

While the Board is pleased with these noteworthy successes, we believe the Operations Center could be even more robust if the Board, the Inspectors General and the Council of Inspectors General on Integrity and Efficiency were exempted from the computer matching provisions of the Privacy Act. Such an exemption, which was introduced last year by the House Committee on Oversight and Government Reform, would allow us to compare data from different systems of records to detect improper payments and fraud in Federal benefits programs. It could also give us the ability to proactively identify recovery dollars, as well as non-recovery dollars, that are vulnerable to fraud, waste and abuse.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you or Members of the Subcommittee might have.

Senator CARPER. Mr. Scovel, thanks. Thanks very much for that. Mr. Croft, please proceed.

STATEMENT OF KELLY CROFT,¹ DEPUTY COMMISSIONER FOR SYSTEMS, U.S. SOCIAL SECURITY ADMINISTRATION

Mr. CROFT. Thank you, Chairman Carper, Ranking Member Brown and Senator Pryor, thank you for inviting me here today. And as requested, I will focus my comments on our collection and distribution of death information.

Within SSA, I am responsible for delivering information technology services across the Agency. Each year, we receive approximately 2.5 million death reports from multiple sources including States, family members and funeral home directors. We use that information to stop payments for a beneficiary who has died and also to establish benefits for any eligible survivors. We also retain a record in our files, and we currently have over 92 million death records.

Recognizing the broader value of death information to support accurate benefit payments by other government programs, we have been sharing data for many years. We currently share death information with the Veterans Administration, the Retirement Railroad Board, the Office of Personnel Management (OPM) and the Department of Defense. We also provide a more limited copy of our death information to the Internal Revenue Service (IRS), the Centers for Medicare and Medicaid Services and the Department of Commerce. Commerce then resells the information to other organizations and the public, and I believe some of those customers make additional commercial use of the data.

We update the death information we share with these organizations on both weekly and monthly schedules. To provide a sense of the scale for these exchanges, we currently post approximately 48,000 new death reports a week. And I know the Administration plans to use this information to enhance the President's initiative for agencies to check key eligibility databases prior to making a government payment.

That said, every large data set, at least every one that I have been associated with, has flaws, and it is extremely important that anyone reusing this data do so in a responsible manner. For example, we make it well known that the information we share is not a complete record of deaths in the United States and not all records are verified by Social Security. In addition, unfortunately a very small amount of death data we post to our records proves to be wrong. We fix errors as soon as we learn of them, but then we must rely on all the downstream users of death information to correct their records as well.

I want to mention that an ongoing effort between the Federal Government and States called Electronic Death Registration (EDR), is helping to improve death reporting and the quality of the data. Thirty States, the District of Columbia and the city of New York now have an EDR process in place, and records that come to us via this automated process are almost error-free. The effort to promote the use of EDR in States is ongoing.

In conclusion, technology clearly enables the exchange of data. Once agreements are reached, files can be shared relatively quickly and safely, and query tools can provide end users with easy access

¹The prepared statement of Ms. Croft appears in the appendix on page 74.

to information. We believe careful and responsible reuse of the death information in our records supports the governmentwide effort to maintain the integrity of Federal programs and protect taxpayer funds.

We will continue to share death information from our records to the extent the law allows, and we look forward to participating in any new initiative that will help prevent improper payments.

Thanks again for having me today, and I will do my best to answer your questions.

Senator CARPER. Thank you so much, Mr. Croft.

I have asked Senator Brown if he would like to go first and Senator Pryor second, and I will go last. We will start off with like 7-minute rounds. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

First of all, thank you all once again for coming, and Mr. Chairman, thank you for holding this.

So Mr. Werfel, I just might as well start with you. Considering there is an estimated \$125 billion in improper payments just within this last fiscal year, the goal of preventing \$50 billion in improper payments by Fiscal Year 2012, as stated in your testimony, seems certainly aggressive, a big goal. Considering the fact we are in mid-Fiscal Year 2011 and that total improper payment estimates are still growing year over year and the decline in the reported governmentwide improper payment rate has been relatively modest, do you still see that goal as being achievable? And if so, why, or if not, why?

Mr. WERFEL. I would certainly agree, Senator, that it is an enormously aggressive goal, driven in large part by a specific goal to cut the Medicare fee-for-service error rate in half by Fiscal Year 2012, and Medicare fee-for-service errors represent the largest portion of errors.

I continue to believe that it is achievable although it is aggressive. The fact that the error rate went down between Fiscal Year 2009 and 2010 is certainly a positive trend. It did not go down as much as we were hoping in terms of staying on track for the \$50 billion. It just means that we have to make up some of that ground in the coming year and then in the following year make up even more ground.

I think the key here is that how aggressively Federal agencies are taking their responsibilities to drive their error rates down, and right now I have not seen in my experience—and I have been involved in improper payments since the Improper Payments Act was first passed in 2002. I have not seen this much concerted activity and this much proactive steps being taken by agencies to address their errors. So I am optimistic that the error rate will continue to trend down.

And whether we hit the \$50 billion or not, I think obviously it is an aggressive goal. So it is an open question, but I am confident that the error rate is going to trend downward.

Senator BROWN. Because I know OMB testimony stated that the improper payment error rate declined from 5.65 percent in 2009 to 5.49 percent in Fiscal Year 2010, representing \$4 billion in potential improper payments that were actually averted. So to get to that \$50 billion number ultimately, that is going to—

Mr. WERFEL. You have to get down to somewhere in the low 4 percent, high 3 percent range depending on what the outlays are.

Senator BROWN. Yes.

Mr. WERFEL. But, yes. I mean again I agree, Senator. There is a lot of work to be done. And our hope is that a lot of the work that has been being done, which does not happen overnight, is really going to kick into gear.

Senator BROWN. Well, listen; I do appreciate your effort. I will say that publicly and wish you well. And I think the reason you are seeing a lot of activity is because we are out of money and we need to find it and we need to use it better.

So whatever the Chairman and I can do to push any buttons by holding hearings or sending letters or making phone calls, we are on board certainly.

Which programs do you see a majority of the \$50 billion in prevented improper payments coming from?

Mr. WERFEL. Well, right now, I think the most—both the Medicare and Medicaid error rates went down between Fiscal Year 2009 and Fiscal Year 2010, which is important because those are the two largest programs.

The Food Stamp, or the Supplemental Nutrition Assistance Program (SNAP), error rate has continued to trend downward, and that is another one of our big program areas.

In fact, if you look at the approximate 11 of our largest programs that make up approximately 90 percent of the error, most of them went down: Medicare, Medicaid, Social Security, one of the Social Security programs, SNAP and School Lunch and HUD programs. All of those trended downward.

Where we are trending upward and where we have to do a better job is on the Department of Labor's Unemployment Insurance Program is one of the big concerns that we have.

Senator BROWN. So why do you think these programs will have the most impact? Just obviously because of the size of the money, the total moneys that they are dealing with, there is more leeway on either side?

Mr. WERFEL. Yes. I think obviously when we are attacking this problem, we want to use good approaches of risk management. And very early in our improper payments effort it started to materialize in the numbers that about a dozen or so programs were making up 90 percent of the errors. So not surprisingly, we focused a lot of our efforts around that, and Medicare and Medicaid make up a substantial portion of the error if you just isolate those two programs.

And again, there are enormously detailed and comprehensive correction plans underway at each agency, to attack this problem. And again, we are seeing positive trends. But as you point out, those declines in the error rate are going to have to steepen over time if we are going to meet our goals.

Senator BROWN. Thank you.

And Mr. Hale, if I could just zero in on you a little bit, a couple of questions. So the DOD financial management has been on the GAO's high-risk list since 1995, and improper payments are obviously a significant problem for the rest of the government. Yet, in your testimony, you said that DOD is ahead of the curve on eliminating improper payments.

But I am looking at reports from various years since 1995, and the recommendations and the problems still seem to be here. So I think there is some skepticism in the statements, and I am wondering about it.

They include GAO and the DOD Inspectors General indicating that, and I just want to see if I get this right. In your testimony and in response to the letter that I, along with the Chairman and others sent you recently, you concluded that both the reports were, “overstated and, in some cases, misleading.”

So what areas were in fact overstated and misleading? While I want to give the benefit of the doubt, I just want to make sure I understand.

Mr. HALE. Sure. Glad to answer. In the case of the DOD IG report, they argue that we had failed to review \$167 billion of payments for improper payments. Of that, more than two-thirds were internal fully supported transactions essentially between government computers paying for transfers to retirement accrual funds. Both DOD and OMB agree it makes no sense to review for these payments, as they are essentially accounting transactions.

In the case of GAO, they noted that we had not done post-payment statistical sampling for \$300 billion of commercial payments, which was true. At the time the audit was issued, because we had a strong prepayment program that I described in my testimony, we were following OMB’s guidance not to do post-payment statistical sampling but reporting under the Recovery Auditing Act to allow fuller recoveries. That was pre-IPERA, which now requires it by law.

And as I said in my statement, we are moving to post-payment statistical sampling for all of our commercial payments to start with quarter 1, Fiscal Year 2012. But we will continue the prepayment effort because it is just much better to catch these before they happen than to chase them after they happen.

Senator BROWN. Yes.

Mr. HALE. So I want to see—I want to do everything we can to stop them from getting out the door rather than sampling afterwards to find out whether we have failed.

Senator BROWN. It seems that we need to get every—

Mr. HALE. Does that answer your question?

Senator BROWN. Yes, somewhat. I mean I am going to come back to it because my time is up.

But it seems like we need to kind of get one-stop shopping with all this stuff. It seems like there are so many agencies and so many departments dealing with payments, and it seems like there should be like a master list like that person is dead; we should not be paying him anymore. Or, that company is bankrupt—

Mr. HALE. Well, we file match with the Social Security Administration Master Death File. As you heard the Social Security witness say, we use that for retirement payments. In that case, that is the one relevant to us. It is not perfect, as he indicated. But we use it regularly, and actually our error rates are fairly low, and we do post-payment statistical sampling on those.

Senator BROWN. I will followup. Thank you, Mr. Chairman.

Senator CARPER. Thanks.

First, just briefly respond to my first question, all of you if you would. What should Senator Brown and Senator Pryor and others on this panel and our Subcommittee, what should we be doing to try to make sure that this new law is fully implemented, faithfully implemented? What should we be doing?

Mr. Werfel, just briefly.

Mr. WERFEL. I think, very briefly, hearings are like this are important, making sure that you are shining a light on the issue because it creates accountability and incentivizes Federal agencies to take their efforts seriously, and it strengthens our ability to lead.

Also, I think we really do need to roll up our sleeves and look at what additional legislative solutions can be had. I do not think—I mean IPERA is an important milestone, but I still believe there is more work to be done from a legislative standpoint.

The President's budget includes legislative proposals that, if enacted, would save \$160 billion over 10 years in the area of program integrity. We need to look very seriously at those provisions. And there are other types of enhancements we can make to the agencies' ability to share information and track information that we need legislative help on. So in those areas, we want to work with you.

Senator CARPER. Good. Thanks.

Mr. Gregg, what more should we be doing to make sure that this new law is faithfully and fervently implemented?

Mr. GREGG. Senator Brown made the comment that it is kind of things are all over the map, and I think that is true. When we looked at this last year, we were looking at various databases. And agencies, in some cases, could not get access to databases that would have helped them. In other cases, where they did have authority, it takes 18 months to 2 years to go through the computer security matching agreements and the Memorandum of Understanding (MOU) to get from here to there. I know that from first-hand experience.

So I think having an organization within Treasury that we are working on, to pull information together and allow agencies to come in one place. At least in some cases, we need amendments to the Privacy Act and the Computer Security Act to enable us to provide information. I think that would be a very big step to allow us to move forward.

Senator CARPER. Senator Brown asks if you can give us some specific ideas here, and we will probably ask you to do that in writing.

Mr. GREGG. I would be happy to do that. There is a long list.

Senator CARPER. Good. That is good.

Mr. Hale, just briefly, what more can we do to make sure this new law is faithfully implemented?

Mr. HALE. Well, Mr. Chairman, I think at DOD our main issue is continued implementation. Again, I think we have a strong program, but it can be better. We need to implement IPERA.

I rarely ask for hearings, but I concur with Mr. Werfel, that they are a good way. I know more about improper payments now in DOD than I did 2 weeks ago, and so shining a spotlight on this is good idea.

Senator CARPER. All right. Thanks. Mr. Scovel.

Mr. SCOVEL. Mr. Chairman, thanks for the opportunity. We appreciate the support provided by this Subcommittee and especially by Mr. Werfel in OMB for the activities of the Recovery Board.

Sir, the vision that you have outlined and that Mr. Werfel mentioned in his testimony already exists at the Recovery Board. That is one-stop shopping in the Recovery Operations Center.

And it is the Board's position that our capability could be enlarged and exploited for the common good—in this case, to help eliminate and recover improper payments. We have brainstormed over at the Board how we might do that. We anticipate that within the next 6 months to 1 year we might be able to embed the capabilities that you and OMB might need in our own recovery center.

Our next steps would be to gain access to several more needed databases. We already use the Excluded Parties List system, the Department of Health and Human Services (HHS) OIG's List of Excluded Individuals and Entities, and we also use the Death Master File of course. We would need access to the Treasury's DebtCheck and HUD's Credit Alert Interactive Voice Response System.

We would want to standardize and normalize that data because those files were all built on different systems. We would invite agencies to come and consult with us, and find out exactly what they would want to search for. Again, this is in the prevention of improper payment arena.

And we want to ensure that sufficient security is built into that system. We would ask the Congress, as I mentioned in my opening statement, for exemption from the computer matching provisions of the Privacy Act.

Senator CARPER. OK. Thank you. Mr. Croft.

Mr. CROFT. Thank you. A couple things. Positive reinforcement and patient follow-through would be my initial thoughts, and also recognition that there is lots of underlying complexity to these issues and it is going to be an incremental improvement. It is not going to happen in a big bang.

Senator CARPER. OK. Thanks.

Mr. Hale, a couple of questions, if I could, of you and then maybe further for the other panel members. Our colleagues have examined the many challenges and opportunities, not all the challenges and opportunities that you face in the Department of Defense, but some that you have done in order to improve your financial operations. And you play a key role, obviously, in those efforts. Improving financial operations, as I said earlier, will mean that the Department of Defense can reduce its level of improper payments, which you are endeavoring to do.

May I discuss with you some important steps that the Department, at least to me, appears that you need to take to implement the Improper Payments and Elimination Recovery Act?

If I heard your testimony correctly, I think you said you plan on expanding—I think was the word that you used—on your improper payments efforts, which is good. Do you plan on expanding the improper payments effort so that all parts of the Defense budget are examined for improper payments?

I think you mentioned earlier the Department has not examined commercial payments in order to estimate improper payments. So

I think maybe close to half of the DOD budget has not been examined. Could you just respond to that?

Mr. HALE. Well, it depends what you mean by “examined,” Mr. Chairman. I think we have a good program to identify and stop, before they happen, improper payments in the commercial pay which is close to two—

Senator CARPER. Talk to us about that.

Mr. HALE. Say again.

Senator CARPER. Talk to us about that. That is not always the impression that one gets.

Mr. HALE. OK. Well, let me try to do that.

The key item—there are a number of ways we do this. The key is the one that I mentioned in my statement, that we have software logic that searches all the payments. I say all; about 90 percent of the payments we make are subject to this BAM logic. It is a series of business rules that essentially identify high-risk areas, risky payments, and then they are scrutinized by a technician at the Defense Finance and Accounting Service, and they make a decision.

So if BAM saw two payments of a similar amount that were made in the same timeframe, it would flag them, and a technician would look to see if indeed they are two different companies or whether we paid the same company twice.

We think, based on internal reviews, that for the 90 percent of payments that are covered by BAM we have essentially eliminated duplicate payments through this and many other rules. I am simplifying it. It is a complicated set that I do not fully understand, of business rules.

So we think we have good prepayment control mechanisms for commercial payments. But we understand the law, and as I said, we will fully implement post-payment statistical sampling, so we will get another read on whether or not we are properly, whether we are capturing all of the improper payments in commercial pay.

In military pay, in civilian pay, in travel, in military retirement, we already do post-payment sampling. And most of them—frankly, many of them are under-payments, especially in military pay. And we get them back very quickly, as I mentioned.

Soldiers and sailors and airmen and the Coast Guard are quick to tell us if we do not pay them the correct amount, as they should, and we fix it. And similarly, we are able to recover most of those usually within a pay period or two.

So we still have a ways to go. We will keep trying.

Senator Brown asked me if we are still on the high-risk list for GAO. Yes, we are. But I do not think it is because of improper payments. We have other problems, lack of auditability being one of them, that causes GAO to say this, but I would note again we are not on OMB’s high error list in terms of improper payments.

Have I answered your question?

Senator CARPER. That is a good start.

My time is expired. Let me yield to Senator Pryor.

Thank you again so much for coming.

Senator PRYOR. Thank you, Mr. Chairman, for having this.

I would like to take us in a little different direction. I am 100 percent in favor of going after improper payments. I think that is important. I would say when it comes to budget matters that we

can do better and should do better. So I appreciate everything you guys are saying today and what you are working on.

But let me start with you, Mr. Werfel. There is a human element in this as well where there are people who maybe in the Social Security Administration or maybe somewhere else, that there are just some hardship cases. And for humanitarian reasons you would think that the government, in some narrow circumstances, should just not press too hard to try to recover from these people.

I have had an experience recently with FEMA. FEMA feels the pressure to try to recover as much as they possibly can. They are talking about putting some people that are on Social Security, that wrongly received a payment, that FEMA assured them all the way through the process that they were entitled to, and then FEMA reviews it 3 years later and says: Oops, our mistake. You owe the \$27,000.

So I guess for you, Mr. Werfel. How do you define that balance? What is that balance where certainly the taxpayer and the government have a compelling interest in trying to get money that has been wrongly paid, but on the other hand, you would need to—and I hope we would—take into consideration this human element?

Mr. WERFEL. Well, Senator, it is a great question. I have studied improper payments very closely over the last 8 years, and I keep on being struck by the fact that there are very, very difficult public policy tensions in our efforts to address improper payments. It is at both ends of the spectrum. You referenced the collection spectrum.

Let me just spend a second on the improper payment itself—
Senator PRYOR. Right.

Mr. WERFEL [continuing]. And then I will address your question about collection.

There are certainly areas of egregious error, where the government is being defrauded, and in that case it makes all the sense in the world to be in the most aggressive posture.

Then there are examples where there are just basic mistakes we made. We have mentioned some of them—payments to the deceased, payments to excluded parties. And certainly, we need to be in an enormously aggressive posture on there.

But a great majority of our \$125 billion are much tougher calls. There are eligibility requirements that are sometimes difficult to navigate, and let me give you a great example of one in Medicare.

Under the Medicare process, we audit a payment to see if it was correct or not. And what we find is that a patient was admitted that is eligible for Medicare, and that patient and the doctor made a decision to admit that patient for an overnight stay.

But when you go back and you review the basic facts of the situation, the auditor makes a judgment that the types of issues that were presented did not warrant Medicare reimbursement for an overnight stay. It warranted only for an outpatient procedure.

These are very tough to mitigate and to address. And in particular, in the moment when an individual is being brought into the hospital and a doctor is making a subjective decision, and the HHS regs are not always black and white in terms of how to interpret, you get very much into that human element. And the more we try to drive those types of error payments down, the tougher

situations we could potentially present to ourselves in terms of difficult decisions that are being made in delivering Medicare, medical assistance to those covered by Medicare.

I want to offer that as an example, and we see that time and time again.

Senator PRYOR. Let me interrupt right there if I can, and that would be in that scenario that you just gave, which is obviously a good example, would your recourse be against the individual who received the benefit of the payment, or would your recourse be against the doctor or the hospital? How do you parse that out?

Mr. WERFEL. In Medicare, it is the doctor and the hospital that who—if we are going to recover those funds through an audit or some other mechanism, so it is that.

Just another quick example, on the Earned Income Tax Credit (EITC), which has the highest error rate of any program—so Medicare is the highest dollar amount. EITC has the highest error rate.

Often, a lot of those errors are people that are marginally poor. They have an adjusted gross income that is narrowly above the threshold. It is still technically an error, and there are some difficult decisions that go into preventing those payments to those individuals that are just marginally poor versus not fully within the realm of the statute.

With respect to collection, to get at your question, I think you see a similar thing. I think there is a basic rule of debt collection which enables, across government, agencies to forgive or compromise or write down a debt if they believe the collection of that debt would be too expensive to justify the benefits of recovering the actual funds. And very often, the economic situation of a given individual can factor into this question of whether the costs and benefits line up. So in that regard, there is some degree of flexibility, although it is not perfect flexibility, for agencies to allow for the human element in some of their collection activities.

There are other programs—that is the general, common rule. I happen to know that there are programs throughout government where there is even more flexibility that enables agencies, for example, to take into account fairness, equity, good conscience. And those are where Congress, in its wisdom, decided for this particular program to enact that type of additional flexibility for the agency.

So there is precedent for this type of recognition. It is just something that has to be balanced against the enormous amount of overpayments we have and the tremendous economic benefit we get from recovering them. I think it is a challenging public policy balance that needs to be looked at.

Senator PRYOR. And you referred to this earlier, but what percentage of your—in your estimate, how would you lay out those percentages in terms of the recovery that is very clear-cut, where there is fraud or clearly some wrongdoing, versus these other grayer areas?

I mean I understand you might get a double-dipping situation. Like in my case it is FEMA, and some people may have homeowners insurance or some other insurance that covers some of this false property, and they get the FEMA money. Then they get the insurance money, and they are supposed to pay FEMA back.

I do not know if I would even call that a mistake, but that is just a double-dipping situation where they probably ought to pay that money back.

Do you have a breakdown of how many of these are truly clear-cut versus the harder to—

Mr. WERFEL. I do not have that. I can go back to the team and the Treasury Department. Actually, Mr. Gregg oversees a large portfolio of debt collection that Treasury does for the government as a whole, and maybe we can look at that question. It is a very difficult one to assess because it involves subjective judgments about fault and timing.

Senator PRYOR. Yes.

Mr. WERFEL. So we can try, but I am not sure we will have that data.

Senator PRYOR. Let me just run through this one scenario, if the Chairman will give me just another couple of minutes here, to talk about the situation in my State. And the truth is we will see this in other States.

There were some floods in Arkansas about 3 years ago. A couple had their home flooded out. When they bought the home or built the home, they had flood insurance.

Then after a period of years, the flood insurance company canceled on them and said we are getting out of that line of work. So they could not find anywhere, but they went to Lloyd's of London and got flood insurance, made sure they were covered. Of course, all this time they never had a flood, but nonetheless they carried the insurance.

Then the Lloyd's of London folks said we are not going to do this anymore. So they tried to go to the National Flood Insurance Program. They could not get it because the county had not passed a FEMA-approved ordinance. In order to be in the flood insurance program, the county has to do this.

So nonetheless, the flood happens. A few days later, FEMA shows up. They come to the house. They take photos. They give them the forms. They walk them through the process. They assure them that: You are covered. Everything is going to be good. Just fill out these forms.

Turns out it went through the process. There was even some sort of appeal or higher review on it. It is neither here nor there, but nonetheless, ended up giving \$27,000.

Now these folks are on Social Security. They are in their seventies. So pretty much all they have is Social Security, as far as I know.

So they get the \$27,000 and do exactly what they are supposed to do with it: They put it in their home.

And now 3 years later, FEMA comes back and says: Our mistake. Because your county did not do this ordinance, we should never have given you this in the first place. Therefore, we want our money back.

Well, the problem is—and from my standpoint—the government has really harmed them because they would not have taken this money. They could have made personal decisions 3 years ago when the flood happened, but now they are in a situation where they took some money. They put it all back in here. They did not restore

the house to what it was before, but it is livable and they have been living there.

And now FEMA is coming back and saying: Look, you have 30 days. We can maybe put you on a payment plan, figure out your disposable income. Maybe it is \$100 a month. We do not like to collect for more than about 5 years. So that would be \$6,000.

You owe us \$27,000. So we are going to squeeze you for 5 years and get \$6,000 out of the \$27,000.

It just troubles me, given that scenario where the mistake is completely on the government side. The people did not do anything wrong other than what their government told them to do. They said: Fill out these forms. You are entitled to this.

Back to the human element that you and I have talked about. It seems that there ought to be some clear ability for FEMA to waive that without forcing them to go through this appeal process.

Right now, they have an appeal process where it can take months or even longer to go through this process. They have to fill out paperwork. The burden is on them to show FEMA has made the mistake, and who knows what FEMA will do. It is totally within FEMA's discretion.

FEMA, apparently, if you look at their track record, they do not have great statistics on that. But if you look at this, they are very reluctant to give this kind of relief to people. And they may technically have the authority. I think there is a dispute about that.

But what I would say is we ought to write something in the statute, kind of like what Social Security has, that takes into consideration the human element.

Mr. CROFT. We do have a waiver provision where we would assess the person being without fault, but also we would look at their ability to repay. You have to meet both of those qualifications. And that includes installment plans and things. But yes, we do have waiver provisions.

Senator PRYOR. Do you have a sense of how often you guys utilize the total waiver?

Mr. CROFT. We would have that data. I do not know off the top of my head, but we certainly could provide that.

INFORMATION FOR THE RECORD

In FY 2010, we handled about 197,000 requests for waiver of an OASDI program overpayment. Of those, we approved about 161,500, or about 82 percent.

During the same period, we handled about 263,400 requests for waiver of an SSI program overpayment, and approved about 210,000, or about 80 percent.

Senator PRYOR. Do you have any comment on that, Mr. Werfel.

Mr. WERFEL. My reaction is that it is a complex terrain, and there are different types of government errors where there is one end of the spectrum where you would really want the government to aggressively recover the money even though it was the government's fault. Just as a hypothetical, if John Smith wakes up one morning and the IRS accidentally sent him a \$10,000 check, he should have knowledge that this was a clerical error of some kind and be compelled to return the money.

Senator PRYOR. Right.

Mr. WERFEL. There are many errors in which we need citizen participation and citizen responsibility to help us understand

where these errors are occurring and return them to us. And then there is the example that you gave, which is arguably on the other end of the spectrum.

As I mentioned, right now, I think there are general authorities that FEMA and other agencies have to take into account economic situation of the individual involved. But programs like Social Security have a layer deep of flexibility and authority around these issues of good conscience, and certainly they should be evaluated to see if there is a better approach.

But OMB, from my perspective, we want to look at that closely to make sure that we are not entering into a situation that potentially could inhibit other types of recoveries that fall at a certain end of the spectrum where you really want to be as aggressive as possible.

Senator PRYOR. Mr. Chairman, thank you.

Senator CARPER. Your time has just about expired.

Senator PRYOR. I know I was way over. Thank you.

Senator CARPER. Senator Brown.

Senator BROWN. Just a little bit. It is OK though as I am aware of your story from the Subcommittee the other day. I understood that FEMA does have the ability to mitigate, and they just have to do their job and mitigate. There is a provision in there to do just that.

Then when you are talking about the human element, I mean the example you gave is a perfect example. There is an obligation, an affirmative obligation, by an individual. When they receive a payment improperly, they have an affirmative obligation to say: You know what? This is a mistake. Here is the money back.

Not go out and spend it and then just say oh, I do not have the money, and then have us compromise the improper payment to our detriment. I mean it may seem harsh, but you have an unintended benefit that you are not entitled to.

That story is a little bit different, and I would encourage FEMA to mitigate if it is appropriate.

And if we could stay with you, Mr. Werfel, the IPERA legislation and recent OMB guidance has improved agency accountability. But beyond putting their names on a Web site, where is the individual, as kind of an extension of what we were talking about, individual accountability built into the current guidance and the legislative provisions?

Mr. WERFEL. Well, there are a couple of pieces. I think Senator Carper mentioned in his opening remarks that we now have this requirement to incorporate improper payment efforts into employee performance appraisals, which is clearly kind of getting right to the bottom line of accountability. I think when you couple that with an expansion of the transparency requirements around improper payments. The President, in his Executive Order, had agencies designate senior accountable officials for improper payments that I meet with and are ultimately responsible to their secretaries and the President for these efforts.

When you take these things on whole, I think they do have an impact of having people take more seriously and be more proactive on their improper payment efforts. We are always open to other suggestions to increase those accountability points. Right now, that

is what we are working with, and I think there is a lot of promise there.

Senator BROWN. Can you imagine if a large company gave away through an inadvertence, mistake, improper payments of \$125 billion, what would happen to that individual or individuals that were responsible?

Is there anything? Can we fire people under IPERA? Can we reprimand them?

Is there any type of individual accountability to say: Hey, you made a mistake, and you have not improved, and you have to do your job or you are out?

I mean where is all that?

Mr. WERFEL. Certainly, at the most egregious end of the spectrum—

Senator BROWN. One hundred and twenty-five billion is pretty egregious. I am sorry.

Mr. WERFEL. No, it is. The whole \$125 billion is, but as I mentioned, there are certain payments of \$125 billion that have a fraud or criminal element to them—

Senator BROWN. Right.

Mr. WERFEL [continuing]. That certainly the types of steps we can take, in particular if an employee is involved to dismiss and prosecute.

But along the way, I mean just to look at it from a realistic perspective of what makes up that \$125 billion a great proportion of them are these more challenging eligibility determinations that need to be made. And in many cases the employees are doing their best with the information and the material that they have, and they need to be held accountable to be as forward leaning as possible.

Senator BROWN. So can I just interrupt?

Mr. WERFEL. Yes.

Senator BROWN. So now you are saying that because these cases are so close, we are going forward. In the hospital example you used, for example, somebody comes in and has a determination and then after an audit or a review that is when that determination of an improper payment is made?

Mr. WERFEL. That is correct.

Senator BROWN. What is the number associated with that and how many cases approximately, percentage-wise?

Mr. WERFEL. Well, I will tell you the Medicare error amount is approximately—Medicare fee-for-service is approximately \$34 billion.

Senator BROWN. Now in taking that, how many of those cases are ultimately adjudicated in fact, yes, I agree with you, Doctor, and percentage-wise?

Mr. WERFEL. How much are they outpatient versus inpatient?

Senator BROWN. Well, no. For example, on those cases where you have actually gone and done that review and they say oh, it is an improper payment?

Then is there an appeal process for the doctor or hospital to go and say yes, but this case is different, i.e., and they spell it out, and then in fact it turns into not being an improper payment ultimately down the road?

Mr. WERFEL. Yes. What happens is we will carry the total in our improper payment amount.

Senator BROWN. Until it is resolved?

Mr. WERFEL. Well, no. It is in. It is in our improper payment amount.

And then what happens is HHS will deploy recovery auditors to go in strategically and in an optimal way to make sure we are maximizing the return on investment, to go and recover those errors.

And if they go to that hospital and they say this procedure on December 1, you kept the patient overnight, that reimbursement was inappropriate given the way HHS regulations read, they will ask for the money back. And at that point, the hospital can appeal or challenge the determination.

Senator BROWN. And I know that GAO has pointed out in its recent reports that challenges continue to limit our ability to determine the full extent of the improper payments. A Fiscal Year 2010 estimate is from a review of 70 programs. With only 70 programs being reviewed, I mean what programs are being left out, and are there any major programs that we should be focusing on still?

Mr. WERFEL. What happens under the law is agencies are asked to kind of place all their payments and activities into two buckets—high risk and low risk. And we do not measure the low risk. We measure the high risk.

And the law sets out criteria, and OMB helps regulate what those criteria are. They are things like that we believe there is a 2.5 percent or higher error rate, or we believe there is \$10 million or more in error in a given program.

Once you look at that bucket of high risk—and certainly GAO and others have raised questions to make sure that we are putting all the appropriate activities in the high-risk bucket, and I think we are getting better and better at that—there are programs still within the high-risk bucket that have not yet been measured. But we have identified all of them, and all of those agencies are on a path to measurement.

The biggest and the most publicized one is the Part D Prescription Drug Program. HHS is reporting that they are on target to measure that program and report an error next fiscal year. So when their next financial report comes out the end of this fiscal year, it should have a Medicare Part D error measurement within it.

Senator BROWN. Mr. Scovel, I want to make sure you—I do not want to leave everybody else out.

Much has been made of the Recovery Board's tools and technology for forensic analysis to identify the fraud, and I am presuming they are helpful. How is the Board addressing the simpler issues such as simply eligibility verification before disbursement, No. 1?

And No. 2, does the Recovery Board Operations Center focus their efforts more on the front end or the back end of the disbursements at this point?

Mr. SCOVEL. Thank you, Senator. Early on, we focused our efforts on the back end; that is on the investigation side and the prosecution and recovery side. We are turning our attention now to

explore our capabilities as to the front side, how we might help program officials prevent—to turn to the attention of the Committee—prevent improper payments.

If I could refer to our experience in a pilot program that we executed with the Center for Medicare and Medicaid Services last summer, it was to test our capabilities to work with their data and with the resources available through the Recovery Operations Center—first, to identify risk with a subset of Medicare providers who had been referred by the Medicare hotline to us and also then to prevent fraud before it occurs, and that was an analysis of enrollment applications. It was quite successful in our estimation and in HHS's estimation.

And it is partly on the basis of that pilot program, as well as a couple of others that we have underway right now, that we would offer the services and capabilities of the Recovery Operations Center to the Committee and to OMB for this important initiative to rein in improper payments.

Senator BROWN. Thank you, Mr. Chairman. I have to meet—

Senator CARPER. So you are going to go meet with Leon Panetta who has been nominated to be Secretary of Defense.

And I say to Senator Brown, be sure to mention improper payments to him. [Laughter.]

Mr. HALE. Tell him we have a strong program, Senator.

Senator CARPER. But also remind him one of my core values: If it is not perfect, make it better. While we are doing better, we are still not perfect.

I just want to come back to an issue just for a moment, if I could, Mr. Hale.

I say it with respect to Leon Panetta. He was the Chairman of the House Budget Committee when I served with him in the House, and he has been the OMB Director. He is a guy who gets numbers and the importance of strong financial management. So my hope is that Senator Brown will have a receptive audience when they are meeting.

But I would come back, if I could, Mr. Hale. I was interested in the IG's point that when the Department examined civilian and uniform personnel pay to determine the level of improper payments the examination did not check documentation for pay grade and for locality. For pay grade and for locality.

And I would ask you just to share with me how can the Department examine its books if basic information such as a soldier's, or sailor's, or Marine's pay grade and their locality are not double-checked?

Mr. HALE. Well, there are a variety of checks that are made, Mr. Chairman, and some of them certainly involve that. The ones you are speaking of that we define as improper payments by the Defense Finance and Accounting Service do not go all the way back there to a source document. But there are a variety of checks, and I can get you more information for the record. I do not know all of them off the top of my head that are made with regard to the accuracy of the personnel information.

INFORMATION FOR THE RECORD

Hearing Date: May 25, 2011
Hearing: Assessing Efforts to Eliminate Improper Payments
Member: Senator Carper
Insert: (Page 74, Line 19)
Witness: USD(C) Hale

(The information follows):

The Defense Finance and Accounting Service (DFAS) performs numerous pre-payment reviews in military and civilian pay, such as random pay account reviews (approximately 500 to 800 per service component), reviews of accounts with a pay change from the prior payday, military accounts affected by a recently implemented or a previous system or pay entitlement change, and review of all Flag Officer accounts.

For civilian pay, there are database file "bumps" to ensure the same person is not being paid through more than one pay system to prevent duplicate payments, and reviews of all pay accounts within the Executive Office of the President, the Military Service Secretaries, and other Department of Defense (DoD) Executive Service members, as well as random reviews within the civilian pay databases.

Post-payment review technicians for Military and Civilian Pay have access to multiple data screens (from Defense Joint Military Pay System, Marine Corps Total Force System, and Defense Civilian Pay System) to look at previous payroll deductions, allotments, pay grade, locality pay rate, and other items affecting the amount disbursed, to identify anomalies that could indicate an improper payment. In addition:

For Military Pay:

- Monthly comparisons between military personnel data and pay file data verify personal and pay-impacting data and identify anomalies. DFAS coordinates with the Military Services to correct discrepancies.
- Military commanders are provided reports to validate the accuracy of pay entitlement information for all members in their commands. The reports are required to be signed and returned to DFAS within 10 days of receipt.
- Each Military Service requires its members to update personal data on an annual basis or whenever their status changes that would impact their pay, such as marital status or dependent status.

For Civilian Pay:

- Each Human Resource (HR) office ensures accurate initial data entry.

- Quality assurance and internal control procedures to validate the ongoing accuracy of personnel data that include routine suspense reports and customized reports to target specific data anomalies.
- Database file matches are conducted to make sure individuals are not being paid in more than one pay system.
- Payroll reconciliation is performed three times per year, comparing personnel data to pay file data.
- All payments \$10,000 or greater are reviewed.
- Random reviews detect 10 percent or greater variance in net/gross pay.
- Targeted account reviews examine accounts that have undergone system or pay entitlement changes.
- Automated monthly reports are generated to find any “Request for Personnel Action outstanding,” meaning a personnel action has been requested but not completed.
- The Office of Personnel Management conducts periodic data mining extracts looking for data elements that are questionable or incorrect. For example, if a General Schedule employee missed a pay adjustment, this would produce a mismatch requiring further research and resolution by the HR office involved.

Is it perfect? No. We deal with people that are in war zones, and the wounded and injured that are moving around, and a lot of people—at one point, 4 million people were on active duty. So I can assure you that there are problems.

It would be good if we had fully integrated pay and personnel systems, and that is another area where we have tried but so far not succeeded. That would certainly both speed up the process and probably reduce improper payments.

But there are checks. Let me provide for the record more information about how they are made. But the Defense Finance and Accounting Service does not check all of that information back to the source documents.

Senator CARPER. OK. Well, I appreciate your follow-up there.

I would just say—and I say this probably about once a day—everything I do I know I can do better. The same is true for all of us.

Mr. HALE. I agree with you.

Senator CARPER. And we just need to look at everything that we do and say how can we do this better.

We talked earlier, and when I spoke I talked to you about part of what we are trying to do in this Subcommittee is to really change, help change, the culture in the Federal Government from what we describe as a culture of spendthrift to something closer to a culture of thrift.

We want to make sure that we are actually keeping score. If we do not keep score we are just practicing, as Vince Lombardi used to say.

People and some others have said you only manage what you measure.

So we are just trying to do a better job on all those fronts. We are trying to put a spotlight on behavior that is good, that we want others to emulate, and we want to put a spotlight on those that are not so good and try to make sure that we are providing the encouragement and the resources to do better.

I think the next question may be back to Mr. Werfel. I think in your testimony you pointed out that in the last fiscal year, Federal agencies recovered about, I think, just under \$700 million through recoveries after the improper payments were made. And I realize that amount—I think it was \$687 million dollars. I think that is three times the amount for the previous year. If you do that again next year and the next year, we are talking about real money.

However, having said that, the progress also has to be measured against that big number right over there, \$125 billion, in improper payments. And I believe that if we do the math the Federal Government only recovered about 0.6 percent, and that, as we know, is not a lot.

And if we triple that again for next year, we are still only about 1.8 percent. While that is an improvement, that still would not be a whole lot.

I know that part of this recovery figure is from the Medicare Recovery Audit Contractor, a program that uses private companies to comb through reimbursements to look for over-payments. But what efforts are underway by agencies to improve recovery and will expanded use of Recovery Audit Contractor play a role?

Mr. WERFEL. Absolutely. Well, first, just as a qualification—and I have mentioned this to you before, Senator, and it is not meant as an excuse in any way. It is just something that I want to put out there as a basis for thinking about recovery—is that a lot of that \$125 billion is generated on a statistical sample.

And so what happens is we will pull a sample of payments, and we will get an error measurement associated with that sample, and then we will extrapolate it to the universe. So the amount available for recovery in many of our programs is the only amount that we identify in the sample because if we pull a sample from John Smith down the street and say your payment was an error, we can go out and get that, but we cannot knock on his neighbor's door and say because he had an error we assume there is an error in your payment of some percent and we will pull it back as well.

So in some cases, not all, we are constrained to the universe of the sampling that we take for the recoveries.

That said, I agree that there is an expanded universe, an expanded denominator if you will, of recoveries out there. IPERA opens the door to a greater set of recoveries because it expands our recovery audit programs beyond vendor payments to grant payments and other activities.

Right now, agencies, under OMB guidance, have reported in their plans to us for how they are going to leverage the new IPERA authority to expand their recoveries. And as you would expect, we are seeing a spectrum with respect to the plans. In some cases, the agencies are coming at it aggressively and have already started up, and in some cases they are needing a little bit of prodding from OMB to take the authority even more proactively and expand.

So I predict that as the financial reports come in at the end of the year, you will start to see the needle move as a result of the IPERA legislation, in terms of recoveries. But over the next few years, if we are successful, that needle will move much more significantly.

Senator CARPER. Good. Thanks for those efforts and that reassurance.

A question, if I could, for Mr. Gregg, and this focuses on the Do Not Pay Initiative. I understand many of the basic operations of the Do Not Pay Initiative will likely be housed within Treasury. Is that correct?

Mr. GREGG. Yes. In the Fiscal Year 2012 budget, there is a request that Department of Treasury and the bureau under me, Bureau of Public Debt, take on this role, and we are moving very quickly to get the portal up by January of next year.

Senator CARPER. Good. Has a price tag for the new system been estimated? Have you heard any price?

Mr. GREGG. Well, we have not got any money yet, but the request was for \$10 million. We think that is doable for the work that we have underway, and we plan to—well, hopefully, we can get that to accomplish what we have been asked to accomplish.

Senator CARPER. Good. Ten million dollars for most of us as individuals or families, that is a lot of money. But I would certainly observe that while it is a lot of money, compared to \$125 billion, it is a relatively modest sum.

Mr. GREGG. I would mention, Senator Carper, that the public debt is also in the midst of merging its IT operations with the other bureau that works with me, and that is well on its way. It is one of the initiatives that OMB has identified, and we are merging those two operations and closing three data centers. So we are doing this work in the midst of that, but we are still very optimistic that January of next year we will be up and running with the portal.

Senator CARPER. Vivek Kundra was before us today, sitting right where Mr. Croft is sitting, early this morning in another hearing, and we talked about data centers. I think we have about 2,000 of them in the Federal Government, and the effort is to try to reduce that to about 800 and to save I think he said \$3 billion. I think it is \$3 billion over 5 years, which that is real money.

Going back to the \$10 million that you said that you thought the Do Not Pay Initiative might cost, around \$10 million, at least that is what you had asked for, do you have any estimate or just an educated guess of how much that might save?

Mr. GREGG. I really do not. I think that when we did a study last year and looked at the various databases, and it so happened that it was done out of my office, but no one owned kind of the whole picture in terms of bringing all these databases together.

I think the impact it can have on reducing improper payments can be enormous because you have, as Danny Werfel said, you have agencies who are really at the point where they want to do something. And at the same time you have many of them that cannot get access to information that they would need on employment or whether or not their individuals are residing where they say they are residing. Or, if they do that get information, it is extremely difficult.

So if we can pull this information together to provide the agencies, to make it easy for them to do that while still controlling the information appropriately, I think the savings will be enormous.

Senator CARPER. OK. I like that word "enormous."

In the weather forecast, I like the word when they are giving the weather forecast and they say "bountiful sunshine." I like bountiful sunshine.

When we are talking about deficit reduction, "enormous" is a very good adjective.

Mr. Werfel, did you want to say something there? If not, I have a question for you and for Mr. Gregg, and we are going to close it down.

Mr. WERFEL. I was just going to point out that our review of all the relevant data that we had at our disposal showed approximately \$240 million in improper payments identified as a result of payments to dead people, and incarcerated. I think the Do Not Pay solution will help us cut deeply into that amount but also have repercussions beyond that. Particularly the Recovery Board, with their fraud detection tool, is uncovering and helping prevent fraud in ways that go way beyond just stopping payments to the deceased and the incarcerated, and we would like our tool to be used in a similar way.

The only other point I want to add to the question about how much will it cost—because I have been getting this question a lot

by your colleagues in the House, so I figure I will go on the record here—is that we are very interested in partnering with the Recovery Board to see if we can leverage the infrastructure of their solution to help mitigate the cost of the Treasury’s deployment. I know Mr. Devaney is open to that.

Senator CARPER. How about Mr. Scovel? [Laughter.]

Mr. SCOVEL. Yes, sir.

Senator CARPER. Oh, good.

Mr. WERFEL. So we are hopeful. We asked for \$10 million because we cannot assume that the Recovery Board, an independent entity, is going to hand us the keys to their system. At the same time, we are extremely open to mitigating that \$10 million by a partnership with them.

Senator CARPER. That would be good.

This will be my last question. Again, this is for Mr. Werfel and Mr. Gregg, and we will stay on the same subject. Could you tell us just a little bit more about the Treasury’s plan to launch the Do Not Pay List over the next several months?

Will you be obtaining contractor support?

What is the timing to bring all the agencies on board using the Do Not Pay List, please?

Mr. WERFEL. I will start for Mr. Gregg and say that after the President’s memo was issued to create a Do Not Pay List we quickly launched *VerifyPayment.gov*, which brings together data sets on various data sources such as Excluded Parties, the Death Master File and incarcerated.

And what we have done is started to pilot that with agencies such as the VA. We are working with the Small Business Administration (SBA) and Education and other agencies to say what do you see in this tool that is going to be more helpful, the way the data is structured, the way you are getting batch uploads versus individual records, the way it interfaces with your system. We are just learning about how to deploy the functionality more effectively, targeting a January date where we can be up and running, and then a larger suite of agencies can start incorporating this into their daily operations.

So rather than face a suite of different data and different agencies and navigating more bureaucracy, they are just navigating with Treasury, and Treasury is providing that portal.

So the pilot process and phase have been enormously successful to date. We are learning a lot, and we are also learning, I think as mentioned throughout this testimony, that we have some challenges to make sure that we are getting access to more data than we have today and that we are figuring out how to streamline some of the bureaucracy associated with obtaining that data.

My final thought is—and I was thinking this when the question was raised earlier, and I think it is important to get out there—just like we were talking about the public policy tensions between recovering information and fault and good conscience and equity, they are similar with respect to the sharing of data and the privacy impacts. It is going to be really important for me and for OMB as we knock down barriers to data integration across agencies, as we figure out better approaches for sharing data, we have to do it in a way that continues to protect data security and data privacy.

I firmly believe there is a win-win here, where you can knock down those barriers, yet still be in a place where the privacy and the security of the data have not been compromised. But it is something that has to be part of your process, moving forward, and we are certainly committed to that.

Senator CARPER. Mr. Gregg.

Mr. GREGG. All the things that Danny mentioned we are certainly working on.

And I think the culture that you have mentioned a couple times; in fact if it has not changed, it is changing. It is easy—

Senator CARPER. It is encouraging to hear you say that. I think it is. I think it is. It is like changing the course of an aircraft carrier, something that is not easy to do, but you stay at.

Mr. GREGG. And it is easy for—and I certainly understand from agencies' perspective, having run a couple of bureaus and know the importance of getting your program. But I think they are looking at the issue more broadly and saying, like Social Security, how can we share this? When we are at that point, I think that the opportunities here are enormous.

I am not sure how much contractor support we will need. We certainly will, to the extent we can, take advantage and learn from the Recovery Board. At the same time, we know that there is software out there that will help us do business analytics, to help us do things that we have not been doing before.

For example, one of the Financial Management Services (FMS), another bureau that works for me, has software that now is helping them identify whether or not the individual with a slight variation of the name is actually the person who owes a debt or not, and that is something we have not been doing in the past. So that kind of software to say actually Richard Gregg and Dick Gregg living in Springfield, Virginia are the same people, and go ahead and collect that debt.

So we are looking at different kinds of software that agencies can use to help them do some analytics before the payment goes out.

So I think it is—I am excited about actually the opportunity that I see to really go after that big number up there.

Senator CARPER. Not everybody gets excited about this stuff. And I know sometimes my colleagues look at me, roll their eyes and say why do you spend so much time focusing on it, or why do you get so juiced up about this?

This is money we do not have. This is money that we end up just going around the world and borrowing. And some of the folks that we borrow this money from, it gives them an advantage on policy issues that is an advantage we do not want to give them.

We can just continue to give them that advantage and put ourselves at a disadvantage, or we can try to do something about it, and no one solution, no silver bullets. But as I like to say, a lot of silver BBs, and in the end they add up to a lot of silver, a lot of money.

I am not the smartest guy around. I am pretty good at surrounding myself with really good people. I like to say people smarter than me. My wife says it is not hard to find them. [Laughter.]

But I think we are on to something. I think we have good partners in the Administration, a bunch of good partners on this Sub-

committee and Committee, and in the Senate and House, both parties.

We have just got to stick with this. Our attention span is we easily get distracted on things. We got distracted with Afghanistan. We got distracted with Iraq, kind of left a vacuum in Afghanistan. Now we get to go back to Afghanistan and clean that place up and help them leave behind a country where people can feed themselves, protect themselves, govern themselves.

But it is hard to stay focused in this business, but we are going to endeavor to do that. And I am pretty good at that.

I want to say to our witnesses today I will give each of you maybe 30 seconds if you want to give us a quick closing comment, just a thought you would like for us to take home with us at the end of the day, as we approach Memorial Day weekend. Mr. Croft.

Mr. CROFT. Well, thank you. Thanks very much for having us today.

I really do not have any deep thoughts other than to——

Senator CARPER. Any shallow thoughts?

Mr. CROFT. We do share data an awful lot.

Senator CARPER. You do. I am impressed by that.

Mr. CROFT. Yes.

Senator CARPER. Do you think that is a good example for maybe the rest of us?

Mr. CROFT. I do although I would comment there is a lot of work behind the scenes in sharing, as was observed by some of our colleagues. Legal issues are paramount, and so are fiscal issues. We share on a reimbursement basis, unless it is trust fund mission, or required by statute.

So there are a lot of activities that go with sharing, but right now Social Security would have over 1,500 different data exchanges going on. There is a lot of data sharing and it is a lot to keep track of.

Senator CARPER. OK. Thanks. Mr. Scovel.

Mr. SCOVEL. Thank you, Mr. Chairman. We appreciate your confidence in the Recovery Board's experience and capabilities.

And we would offer for the Committee's consideration simply a reiteration of my earlier statement, and that is should the Board—should the Committee wish to entrust the Board with a function such as executing the Do Not Pay List, the Board would welcome that opportunity.

Senator CARPER. All right. Good. Thanks for putting an exclamation point behind that.

Mr. HALE.

Mr. HALE. Mr. Chairman, we at DOD know we need to keep working to do better. I believe we have a strong program, but it can get better.

We will cooperate fully with the Do Not Pay List and make use of it. Even though Treasury does not disburse overpayments, we will tap into the information.

We will fully implement IPERA, and we will continue to strive to help get that number down.

Senator CARPER. Good. We appreciate that.

Mr. Gregg, a closing thought?

Mr. GREGG. Mr. Werfel and I were very happy we were able to convince Nancy Fleetwood, sitting right behind me, who retired—

Senator CARPER. Nancy Fleetwood, will you raise your hand? All right.

Mr. GREGG. Who retired a year ago and has brought great energy and collaboration skills to moving this forward. So we are very appreciative.

Senator CARPER. You say she retired a year ago? Did you bring her back out of retirement?

Mr. GREGG. Yes.

Senator CARPER. No kidding. OK.

Mr. GREGG. There is a team here. She has done tremendous work.

Senator CARPER. Good. I noticed when you testified I could see her lips move. [Laughter.]

She is pretty good at that. You are too.

Thanks. Welcome back.

And Mr. Werfel, and a closing comment, do you want to mention anybody in your staff who is getting married any time soon that you want to just give a shout-out to?

Mr. WERFEL. I would like to mention a Delawarean who works for me because I surround myself with smart people from good States as well, and Joe Pika who is sitting behind me, who is our lead analyst on improper payments, is just that individual. I know you had the pleasure of working with him.

Senator CARPER. I worked for Joe—

Mr. WERFEL. You did.

Senator CARPER [continuing]. when I was a junior Senator.

Mr. WERFEL. He is off right after this hearing. This is the last assignment I could give him as a single man, and he is off to get married and go on his honeymoon to Italy, and I just wish him the best.

We are fighting the good fight on improper payments. People like Joe are pouring their heart and soul into this effort, and I think it is a cause for optimism that you have smart people working on this effort.

Senator CARPER. OK. I would say a fight worth fighting. It is a fight worth fighting.

All right. I think some of my colleagues who are not here will have some questions for you.

And what do they have, Peter? Two weeks?

Two weeks. Two weeks, about the time that Joe Pika is wrapping up his honeymoon. [Laughter.]

We will hopefully give you all the questions that we have, and we would ask you to just respond promptly.

With that having been said, this hearing is over. Thanks so much.

[Whereupon, at 4:15 p.m, the hearing was adjourned.]

A P P E N D I X



FOR RELEASE: May 25, 2011
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U.S. SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

HEARING: "Assessing Efforts to Eliminate Improper Payments"

WASHINGTON – Today, Sen. Tom Carper (D-Del.), Chairman of the U.S. Senate Subcommittee on Federal Financial Management, convened the hearing, "Assessing Efforts to Eliminate Improper Payments." For more information or to watch a live webcast of the hearing, please click [here](#). A copy of Sen. Carper's opening remarks, as prepared for delivery, follows:

"Today's hearing will focus on the very high levels of improper payments made by federal agencies, as well as our efforts to curb these very wasteful and sometimes fraudulent payments.

"As we hold this hearing today, our nation faces considerable economic challenges. Partly as a result of those challenges, we've faced record budget deficits in recent years. Our national debt stands at about \$14.3 trillion, well over double what it was just 10 years ago. As you are all undoubtedly aware, just a few days ago we reached the federal debt ceiling, the legal limit for borrowing money by the federal government. The last time the debt was this high was at the end of World War II. That level of debt was not sustainable then, and it is not sustainable today.

"A wide variety of ideas have been put forward on how to reduce our budget deficit and begin whittling down our debt. Last fall, a majority of the bipartisan deficit commission appointed by President Obama provided us with a roadmap to reduce the cumulative federal deficits over the next decade by some \$4 trillion. A number of the steps we would need to take to accomplish that goal will likely be painful. While most Americans want us to reduce the deficit, determining the best path forward will not be easy.

"Many Americans believe that those of us here in Washington aren't capable of doing the

hard work we were hired to do – that is to effectively manage the tax dollars they entrust us with. They look at the spending decisions we've made in recent years and question whether the culture here is broken. They question whether we're capable of making the kind of tough decisions they and their families make with their own budgets. I don't blame them for being skeptical.

"We need to establish a different kind of culture in Washington when it comes to spending. We need to establish a 'culture of thrift' to replace what some would call a 'culture of spendthrift.' We need to look in every nook and cranny of federal spending – domestic, defense and entitlements, along with tax expenditures – and ask this question, 'is it possible to get better results for less money?' If not, is it possible to get better results for the same amount of money we're spending today? But even before we start on that important work, we need to sharpen our pencils and stop making the kind of expensive, avoidable mistakes that lead to improper payments.

"Last year the federal government made an estimated \$125 billion in improper payments. These improper payments come from over 70 programs at 20 agencies. These include programs like Medicare and Medicaid, civilian and military pay at the Department of Defense, and the Federal Emergency Management Agency, to name just a few.

"An improper payment occurs, as most of you probably know, when an agency pays a vendor for something it didn't receive or, maybe, even pays them twice. It can occur when a recipient has died and is no longer eligible for payment, or when a vendor owes the government money and legally should not be getting a payment until this debt is repaid. These kinds of mistakes occur every day across government.

"But what disturbs me about the problem here in the federal government, is that we seem to make these kinds of mistakes at a rate much higher than a business or the average family would tolerate or could afford.

"We throw big numbers around Washington all the time so I want to put things in perspective, as I have in the past at these hearings. The \$125 billion figure is more than the Gross Domestic Product of each of 120 other countries. In fact, for a comparison closer to home, \$125 billion would fund the entire state of Delaware's operating budget for nearly 40 years. But I should point out to our Ranking Member, Sen. Brown, that it would only fund the state of Massachusetts for four years.

"So it's easy to see how urgent it is that we step up the pace of our efforts to prevent improper payments and eliminate, to the best of our abilities, the management problems that lead to waste and fraud. Success in doing so will go a long way towards helping us reduce our deficit.

"The good news is that we are seeing renewed commitment to reducing improper payments, and we are making some progress. A number of agencies have reduced mistakes and saved money since we first began to shine a spotlight on improper payments during the Bush administration.

"Today, we are joined by several witnesses who are each key players in helping the government successfully identify, decrease, and even eliminate improper payments in the federal government.

"A new law that I co-authored with a number of my colleagues on this panel is moving us even further along. The Improper Payments Elimination and Recovery Act, signed into law by President Obama last summer, requires more transparency from agencies with regard to waste and fraud within their programs. It also forces managers to take additional steps to end the practices that lead to improper payments and, where appropriate, recover the funds they spend improperly. We will hear from our witnesses about the progress of the new law's implementation.

"In addition, our witnesses will talk about one specific initiative called the "Do Not Pay" list. The idea of the Do Not Pay List is straightforward and logical. It would require that federal agencies first check against a centralized federal database – the Do Not Pay list – to make sure we are not paying recipients who are ineligible for payment. Of course, those watching this hearing may ask the obvious question of why would a federal agency ever pay an individual who has died or is a debarred federal contractor, for example?

"Unfortunately, the answer is that, all too often, agencies simply don't do a very good job of coordinating their efforts to prevent improper payments or communicating about best practices. Many also have antiquated databases and computer systems for tracking basic payment information. The Do Not Pay initiative is a major attempt to fix this frustrating problem.

"We are here today in large part because I believe that we have a moral imperative to ensure that the scarce resources we put into federal programs are well spent. It is the right thing to do on behalf of the taxpayers who entrust us with their hard-earned money. We must use every tool available to bring our fiscal house back in order and give the American people the government they deserve."

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STATEMENT OF SENATOR SCOTT BROWN, RANKING MEMBER

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES AND
INTERNATIONAL SECURITY

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

"Assessing Efforts to Eliminate Improper Payments"

May 25, 2011

Chairman Carper, thank you for holding this hearing today. There is no doubt that we have a serious problem here and unfortunately it seems to only get bigger every year. While Congress is debating raising the debt limit above an already incredible \$14 trillion dollars, taxpayers are left to wonder when Washington is going to put an end to its out-of-control spending binge.

Americans are looking for some sign of fiscal restraint and, if nothing else, at least some responsible stewardship of their hard earned tax dollars. Yet this expectation is constantly challenged by federal agencies and programs that, for too long, have been immune from proper accountability and oversight. As the Chairman has pointed out, \$125 billion dollars in improper payments is a staggering number -- and in today's uncertain fiscal environment, it is simply unacceptable.

With each passing year there is a substantial rise in the amount of total improper payments -- up from \$55 billion in 2007 to more than double that today. Clearly this increase illustrates that agencies are reporting on more programs at risk -- a positive step. However, it also illustrates that as government spending increases, so too does the opportunity to lose a more substantial amount of money to error and fraud.

Legislation that requires executive agencies to report and recover improper payments has been enacted for seven years. But as the Government Accountability Office (GAO) points out in a recent report to the Subcommittee, federal agencies and departments still can't meet the statutory requirements to report and fix these errors. This means that, incredibly, \$125 billion may still not represent the true limit of the problem. For example, Health and Human Services has yet to report an estimate for the almost \$60 billion in outlays for Medicare Part D. In addition, according to a recent Department of Defense Inspector General's report, potentially half of the Department's total outlays are not included in current DoD estimates for improper payments. Federal agencies cannot continue to let statutory obligations go unmet and major at-risk programs go unexamined.

For this reason, I was glad to cosign a letter with the members of this Subcommittee and others to ask Mr. Hale to provide Congress with the Department of Defense's plans for improving improper payments reporting and meet the requirements of current law. As the Chairman pointed out, the members of this Subcommittee have a long history of working together to find solutions and I appreciate the commitment of the Chairman and Senator Coburn to bring needed attention to this issue. I look forward to working with them to keep agencies' feet to the fire and ensure that meaningful progress is being made to correct these problems in the future.

I also appreciate the efforts of Mr. Werfel and the Office of Management and Budget to take this effort seriously and I am encouraged by new initiatives like the Do-Not-Pay list. For Mr. Hale's part, his quick response to our letter is an encouraging sign that the Department of Defense is also putting more attention on this problem.

However, until agencies can fully meet their obligations and error rates begin to decline on a meaningful basis, it is clear that much more needs to be done. With American families and businesses struggling in the present economy, we cannot afford to squander any additional taxpayer dollars simply by error or fraud. Properly accounting for every dollar spent is not just important, but critical to maintain both the government's fiscal health and the taxpayer's trust in the future.

Thank you again, Mr. Chairman. I look forward to hearing from our witnesses.

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET**
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**Testimony of Daniel I. Werfel
Controller, Office of Management and Budget
before the
Senate Committee on Homeland Security and Government Affairs
Subcommittee on Federal Financial Management, Government Information, Federal
Services, and International Security**

May 25, 2011

Introduction

Thank you Chairman Carper, Ranking Member Brown, and distinguished members of the Subcommittee, for inviting me to discuss the Administration's initiatives for preventing, reducing, and recapturing improper payments. This Subcommittee has been at the forefront of moving us forward with reducing the amount of improper payments we make each year and I look forward to continuing to work together on this problem. Last August, I spoke before the Subcommittee about our efforts to prevent and recapture improper payments and I appreciate the opportunity to testify before you again.

One of the biggest sources of waste and inefficiency within the Federal government is the amount we pay out each year in improper payments. In Fiscal Year (FY) 2010, Federal agencies estimated that approximately \$125 billion in improper payments were made to individuals, organizations, and contractors. Improper payments occur when funds go to the wrong recipient, an ineligible recipient receives a payment, a recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or a recipient uses funds in an improper manner. The majority of errors are not fraud, and not all errors are waste, but all payment errors degrade the integrity of government programs and compromise citizens' trust in government. As a result, the President has launched an aggressive and comprehensive campaign to address improper payments, rather than accept the status quo.

As part of the Administration's Accountable Government Initiative, we have moved to cut programs that don't work, streamline how government operates to save money and improve performance, and make government more open and responsive to the needs of the American people. Accordingly, we have set aggressive goals to prevent \$50 billion in improper payments, and recapture at least \$2 billion in improper payments, from FY 2010 through FY 2012.

While the Administration has several initiatives underway to accomplish these goals, our partnership with Congress has been vital to preventing and recovering improper payments. The enactment of the bipartisan Improper Payments Elimination and Recovery Act (IPERA) of 2010, which this Subcommittee was instrumental in drafting, was an important milestone in this partnership by providing Federal agencies with new tools to address payment errors.

Another critical step in addressing improper payments is the FY 2012 President's Budget, which contains a suite of mandatory and discretionary proposals that enable critical program integrity improvements in areas such as Medicare, Medicaid, Unemployment Insurance, and Social Security. Common to these proposals are taxpayer savings from the elimination of waste and error. In total, the President's proposals, if enacted, would save more than \$160 billion over 10 years.

The remainder of my testimony today further elaborates on current Administrative initiatives to prevent and recover improper payments.

Improper Payments Overview

The Federal government makes trillions of dollars in payments every year. These payments provide support to millions of retirees and disabled individuals; student loan benefits for many college-aged students; payments to contractors for services performed in the United States and abroad; and grants to States for State-administered programs like Unemployment Insurance (UI) and the Supplemental Nutrition Assistance Program (SNAP).

The vast majority of payments made by the government are proper. This means that the payments are made in the right amount, are sent to the right recipient, and are used for the right purpose. Unfortunately, though, there are instances where the government makes payments that are improper.

Recognizing that improper payments were likely a problem that extended throughout the Federal government, Congress passed the Improper Payments Information Act of 2002 (IPIA, Pub. L. 107-300), which was recently amended by the IPERA (Pub. L. 111-204). Among other things, the law requires agencies to conduct risk assessments to determine which programs are susceptible to significant improper payments, to measure and report improper payment rates and amounts for programs that are found to be susceptible to improper payments, to implement corrective actions to address the root causes of improper payments, and to establish reduction targets to drive agency efforts to reduce and prevent future improper payments.

Prior to the IPIA, there was limited knowledge of the extent of government-wide improper payments. However, agencies are now identifying programs that are susceptible to making significant improper payments as well as identifying and addressing the root causes of these improper payments. In FY 2004, the first year of government-wide improper payment reporting under the IPIA, agencies reviewed 30 programs and reported an estimated \$45 billion in improper payments. Since then, the number of programs reviewed for improper payments has more than doubled, agencies have refined their measurement methodologies and improved the identification of improper payments, and government outlays have increased. These three factors have led to increases in improper payments reported by agencies, and in FY 2010, the most recent year of reporting, agencies reported \$125 billion in improper payments. While the amount of improper payments increased, the reported government-wide improper payment rate declined from 5.65 percent in FY 2009 to 5.49 percent in FY 2010. This percentage decrease represents real progress, as the government would have made approximately \$4 billion more in improper payments had the error rate remained the same in FY 2010 as it was in FY 2009. In addition, we made significant strides in recovering improper payments. In FY 2010, \$687

million was recovered as a part of agencies' recovery auditing efforts – three times the amount recovered in the prior year.

The Administration has taken an aggressive stance to remediate the \$125 billion in estimated improper payments in FY 2010. To that end, we have several initiatives under way that I would like to highlight today that aim to prevent and reduce improper payments. While our ultimate goal is to reduce the number of improper payments the Federal government makes, the Administration recognizes that efforts to reduce improper payments cannot unduly burden the intended beneficiaries of program benefits and legitimate entities doing business with the Federal government.

Current Administration Efforts

In addition to putting forward administrative, legislative, and funding requests in the FY 2012 President's Budget, the Administration is already taking several steps to prevent, reduce, and recapture improper payments. I would like to highlight and provide a brief description of three of these initiatives: (1) implementation of Executive Order 13520 on Reducing Improper Payments; (2) implementation of IPERA; and (3) the status of our effort to leverage data-sharing and forensic technology.

Executive Order 13520 on Reducing Improper Payments

In response to the large increase in improper payments between FY 2008 and FY 2009, on November 20, 2009, the President issued Executive Order 13520 on Reducing Improper Payments.¹ The Executive Order aims to reduce and prevent improper payments by enhancing transparency, increasing agency accountability, and exploring incentives for State and local government efforts to reduce improper payments in State-administered programs (like UI, SNAP, and Medicaid). The Executive Order represents a fresh approach to addressing improper payments. It emphasizes the importance of detecting fraudulent claims, averting improper payments, and improving payment accuracy without making government programs harder to navigate, or restricting access to benefits for legitimate beneficiaries—such as poor families who need SNAP benefits to help put food on the table, or children who need health care and qualify for Medicaid or the Children's Health Insurance Program.

Agencies have made great strides in implementing the Executive Order. We have identified agencies with high-error programs that account for the majority of the amount of improper payments, established supplemental measures to provide more frequent and current measurements for the majority of these high-error programs, and selected Accountable Officials that are responsible for coordinating efforts to reduce improper payments at agencies with high-error programs. All of this information is now readily available to the public on an improper payments dashboard at *PaymentAccuracy.gov*. Specifically, the dashboard, which was required by the Executive Order, includes:

¹ Executive Order 13520 can be viewed on the White House's website at: <http://www.whitehouse.gov/the-press-office/executive-order-reducing-improper-payments>

- Government-wide and program-by-program data on improper payment rates, amounts and reduction targets for high-error programs;
- Data on the amount of contract payment errors that have been recovered;
- The top 10 high-dollar improper payments for the most recent reporting quarter;
- The identity of the agency's Accountable Officials;
- Administration strategies to address improper payments; and
- Agency success stories.

Implementing the Improper Payments Elimination and Recovery Act of 2010

In July 2010, the President signed IPERA into law. We believe that the passage of IPERA will significantly change the way agencies identify, and address, improper payments within their programs. We are actively working with agencies to implement this legislation and its requirements, and believe that it provides agencies with more tools and incentives to prevent, reduce, and recapture improper payments. In addition to requiring agency corrective action plans and reduction targets, IPERA requires agencies to establish mechanisms for holding managers, programs, and where appropriate, States and localities, accountable for addressing improper payments.

Last month, OMB released guidance to agencies on implementing IPERA.² This guidance ensures that agencies are properly assessing risk in their programs, measuring and reporting improper payments for required programs, and establishing corrective action plans and reduction targets to drive agency performance. In addition, when improper payments are made, IPERA and the implementing guidance expand the agencies' authorities and requirements for recapturing overpayments, one type of improper payment.

IPERA also expands the types of payments and activities that should be reviewed through payment recapture audits and changes what agencies can do with those recaptured funds. In addition, IPERA creates sanctions for agencies that are found non-compliant with the law by their Inspector General. The implementing guidance contains instructions to agencies on implementing these and other new requirements.

We have already taken several steps to ensure that agencies are implementing the new law and its guidance. First, last November, we issued initial IPERA guidance that required agencies to, among other things, review their programs and activities that could be reviewed under IPERA's new payment recapture authorities, and to submit a plan to OMB describing how they would implement the law and new requirements. Now that OMB's implementing guidance has been released, we have begun to meet with agencies to discuss how the guidance affects their implementation plans. In addition, next month we will hold a town hall meeting with agencies to discuss the guidance and address their questions.

Another guidance document that we are developing is the audit opinion on internal control over improper payments. As you know, IPERA required OMB to develop specific criteria as to when an agency should initially be required to obtain an opinion on internal control over improper payments, and criteria for agencies with stabilized, effective systems of internal controls over

² The guidance is available at: <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2011/m11-16.pdf>.

improper payments to qualify for a multiyear cycle for obtaining an audit opinion. We believe that strong internal controls go hand-in-hand with preventing and reducing improper payments. Accordingly, we are developing this guidance to ensure that it is implemented in a strong, effective manner, which will help improve existing internal controls at agencies.

Leveraging Technology to Address Improper Payments

This Administration has made leveraging technology a major focus for preventing, reducing, and recapturing improper payments. Technology was a central theme in Executive Order 13520, which required OMB to work with agencies to identify new forensic accounting tools and technologies that could be used to identify and prevent improper payments. In addition, the Presidential memorandum directing that a “Do Not Pay List” be created will serve both as a front-end, and back-end, tool that agencies can use to verify eligibility before payment as well as conduct forensic analysis after a payment has been made.

As a result of the Presidential memorandum, we launched *VerifyPayment.gov* in November 2010, as a first step towards easing agency efforts for checking certain eligibility databases before making payments. *VerifyPayment.gov*, when fully operational, will serve as a single portal through which all agencies can check the status of a potential contractor, grantee or individual beneficiary. The next step for expanding *VerifyPayment.gov* is to connect all needed data sources and create an operations center that will leverage forensic technology to assist agencies in identifying, preventing, reducing, and recapturing improper payments. The FY 2012 President’s Budget included a request for \$10 million in funding for the Department of the Treasury to enhance the elements laid out in the President’s “Do Not Pay” memorandum.

While the initial *VerifyPayment.gov* portal has been built, the Bureau of Public Debt (BPD) within the Department of the Treasury is responsible for enhancing the portal and developing the operations center. When complete, the operations center will utilize forensic technology similar to what was successfully deployed at the Recovery Accountability and Transparency Board (Recovery Board). The Recovery Board has been at the forefront of using cutting edge forensic technology to detect fraud patterns and ensure that Recovery Act funds do not go to bad actors. As a result of this stringent oversight, the Recovery Act has experienced a remarkably low rate of waste, fraud, and abuse – less than 0.4% of awards. We look forward to working with the Recovery Board and applying the lessons learned to the new operations center.

In coordination with BPD, we are currently conducting proof-of-concept pilots with select Federal agencies to demonstrate the effectiveness of a front-end eligibility verification portal with back-end forensic technology capabilities. We anticipate completing the pilot projects by the end of 2011, with full implementation of the operations center by the end of FY 2012.

As we work with BPD to enhance *VerifyPayment.gov* and to create the operations center, we are proceeding deliberately to comply with all applicable laws, regulations, and policies regarding the Federal Government’s use and sharing of personally-identifiable information. During the course of this work, we are discovering that increasing agency access to relevant data sources as well as driving efficiencies in the current process for inter-agency data sharing may improve improper payment outcomes. However, such steps must be carefully weighed against the need to protect privacy and ensure data security. We welcome the opportunity to work with this

Subcommittee and others in Congress to carefully examine these issues and determine whether reforms can be identified that successfully balance these various objectives.

Improving and Leveraging the Audit Process to Enhance Program Integrity Efforts

As indicated above, we are taking an aggressive posture to prevent and recapture improper payments, which will ultimately improve financial management across the Federal government. As demonstrated by our current efforts to improve Federal financial management, we are continuously looking for better and more creative ways to address our financial management challenges.

I previously testified before a House of Representatives' committee that, while audit results signal financial management success in many areas, there are critical financial management objectives not currently evaluated or addressed through standard financial statement audit activities. The recent 20-year anniversary of the Chief Financial Officers Act (CFO Act) of 1990, and the passage of IPERA, have sparked a new and important dialogue among Federal financial management stakeholders concerning the gaps in our current reporting process and how best to close them. As you may recall, IPERA requires the financial management and audit communities to report on the lessons learned, progress made, and improvements needed in the implementation of the CFO Act. Informed by these discussions and my experience as the day-to-day leader of Federal financial management efforts across government, I believe there are three improvements to financial reporting that represent the greatest opportunity to drive bottom-line results for taxpayers. They are:

- Improving reporting on where Federal taxpayer dollars are spent;
- Instituting stronger internal controls to mitigate government waste and error; and
- Increasing access to reliable information on the cost of agency operations.

Together, these three improvements can provide better information for Federal managers to make more informed decisions, enhance program integrity efforts, and increase agency transparency.

Most relevant to improper payments is the need to focus audit scrutiny on internal controls to mitigate error. Today, our financial statement audit results address whether the agency has the appropriate accounting in place to successfully record that a payment has occurred. However, the audit opinion often stops short of scrutinizing the integrity of that payment. This leads to a situation in which there is no correlation between an agency's ability to obtain a clean opinion and an agency's ability to mitigate instances of improper payments. I believe an important improvement that should be considered as we re-examine our current reporting model is:

- Holding the agency accountable for reporting the various root causes and components of their payment errors;
- Identifying those areas of error that are within the direct and immediate control of the agency to mitigate; and
- Evaluating whether the agency has taken sufficient action to mitigate the risk associated with such errors.

Conclusion

The problem of improper payments is not new and will continue to be a challenge for Federal agencies. The amount of improper payments reported by the Federal government has reached unprecedented high levels and must be aggressively addressed. Under this Administration, Federal agencies are renewing and improving their efforts in this area, and we have begun to see progress. Much of this progress has been made as a result of the three initiatives identified in my testimony —Executive Order 13520, the passage and implementation of IPERA, and the leveraging of technology.

We are proud of progress we've made so far, but we continue to seek additional ways to address improper payments. In order to identify and leverage additional tools that will help drive down errors, the FY 2012 President's Budget includes a number of legislative and administrative reforms on improper payments and debt collection, which, if enacted, would result in over \$160 billion in savings to the Federal government over 10 years.

In your letter requesting me to appear at this hearing, you stated that one of the purposes for holding this hearing was to explore potential next steps for curbing improper payments. I want to close by saying that this Administration has made combating improper payments within the Federal government a top priority and we will continue to explore new and innovative ways to prevent and recapture improper payments. Hopefully, I have given the members of this Subcommittee an understanding of where we are, and where we are going, to reduce payment errors across the Federal government. However, our efforts can only go so far. The Congress, the Government Accountability Office, and each agency's Inspector's General Office, play a critical role in holding agencies accountable for reducing improper payments. By continuing to shed a light on improper payments and keeping agencies focused on fixing this problem, I believe we will be able to see real progress.

In the months ahead, the Administration will continue to work through the Accountable Government Initiative to restore a sense of responsibility and accountability for taxpayer dollars. Thank you again for inviting me to testify. I look forward to answering your questions.

Embargoed Until Delivery

May 25, 2011

**Statement of Richard L. Gregg
Fiscal Assistant Secretary
U.S. Department of the Treasury**

**Before the Subcommittee on Federal Financial Management, Government Information,
Federal Services, and International Security
U.S. Senate Committee on Homeland Security and Governmental Affairs**

Hearing on "Assessing Efforts to Eliminate Improper Payments"

Good afternoon Chairman Carper, Ranking Member Brown, and members of the Subcommittee. Thank you for the opportunity to testify on the Treasury Department's work to help reduce improper payments throughout the Federal government.

Background

In FY 2004, the first year of government-wide improper payment reporting under the Improper Payments Information Act of 2002 (IPIA), agencies measured 30 programs and reported an estimated \$45 billion in improper payments. Between FY 2004 and the most recent reporting year in FY 2010, improper payments reported by agencies increased to \$125 billion.¹ While the amount of improper payments increased, the reported government-wide improper payment rate declined from 5.65 percent in FY 2009 to 5.49 percent in FY 2010.² This percentage decrease represents real progress, since it produced a \$4 billion savings to taxpayers relative to if the error rate remained unchanged from FY 2009.³

In 2010, the Department of the Treasury and the Office of Management and Budget (OMB) collaborated to form a work group to examine the root causes of improper payments and ways that information could be shared between agencies to address these root causes. The group identified key pieces of information throughout the government that could be utilized to help prevent some improper payments. If agencies have access to accurate and timely data on death, employment status, income levels, incarceration, location of dependent children, whether or not applicants are already receiving benefits and whether or not applicants are suspended or debarred from doing business with the Federal government, the number of improper payments can be drastically reduced. In addition, the work group determined that Federal agencies have much data that can significantly reduce improper payments. While some data is being shared between agencies, more can be done to improve and streamline the process to enable agencies to have the right data available when a payment decision is being made.

This Administration has made reducing improper payments a very high priority. In a November 2009 Executive Order and a June 2010 memorandum, President Obama reinforced his

¹ <http://www.gao.gov/products/GAO-11-575T>

² www.paymentaccuracy.gov

³ http://oversight.house.gov/images/stories/Testimony/4-15-11_GovOrg_Werfel_Testimony.pdf

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commitment to eliminate waste, fraud, and abuse in Federal programs, including reducing erroneous payments. There are many causes of improper payments, but whatever the cause, we can agree on one thing: even one improper payment is one too many, and additional steps need to be taken to reduce them.

Rather than trying to manage improper payments using only an expensive and, in many cases, unsuccessful "pay and chase" improper payments recovery model, we will work with agencies to help them validate payment eligibility data before payments are made. In fact, our goal is to efficiently and effectively provide accurate data to agencies early in their payment eligibility decision processing. We are working toward the goal established in President Obama's directive that agencies must check several data sources prior to making payments,⁴ and we are one step closer to meeting the Administration's goal of reducing improper payments by \$50 billion over three years.⁵

Treasury's Vision to Reduce Improper Payments

If funded, the Department of the Treasury will establish a verification portal, where agencies can verify information about potential recipients of Federal payments. Treasury's vision of the portal expands to include risk modeling and the creation of a centralized data analytics center. To the extent permitted by law, the center will provide Federal and state agencies a one-stop shop for verifying eligibility and for employing fraud detection tools and data analytics to help further reduce the amount of improper payments. We envision a business solution where key data from many sources can be accessed through various methods including directly accessing databases, copying databases, individual queries, or queries against portals that are already commercially available. A call center will be established as part of the operations center to assist users, and support in-depth analysis or pro-actively investigate patterns of behavior. Our plan is for Treasury to work with agencies to expand their participation—both as data users and as data providers.

We believe there are many benefits to this holistic approach. Streamlining data access and providing data analytic tools will help reduce the expensive and in many cases unsuccessful "pay and chase" efforts currently used by agencies to recover improperly made payments. Accessing the data through the portal will greatly reduce the amount of time needed to verify contract and program eligibility. Building upon lessons learned through previously conducted pilots, we plan to improve efficiency by providing bulk file processing and online capability through one access mechanism, therefore eliminating the multiple individual database searches which agencies have needed to do in the past. Ultimately, the center will work to expand the number of data sources available to agencies and create a more complete picture for those making decisions on payment of Federal funds in Federal and state governments, and help agencies meet their Improper Payment Elimination and Recovery Act targets for reducing improper payments.

⁴ <http://www.whitehouse.gov/the-press-office/presidential-memorandum-enhancing-payment-accuracy-through-a-do-not-pay-list>

⁵ <http://www.whitehouse.gov/the-press-office/president-obama-sign-improper-payments-elimination-and-recovery-act>

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Fiscal's Operational and Policy Making Capability

The Fiscal Service within the Treasury Department is uniquely positioned to support the President's directive to develop a single point of entry to access this needed information. Supporting efforts to prevent improper payments fits well within the scope of our mission, and is a natural extension of our current operational and policy setting roles across the Federal government.

The Fiscal Service's greatest strength is our ability to conduct day-to-day operations efficiently and effectively and our ability to work productively with agencies throughout the Federal government. We already have a payment relationship with a vast majority of Federal agencies, and work closely with them in payment and award verification via data matching. A good example of this is in the area of the Treasury Offset Program. In this program, agency payment files are matched against databases that have been submitted by Federal and state agencies, to ensure there is no outstanding Federal tax or non-tax debt, or in many cases, state debt. Built into this program is an automatic offset functionality, that actually stops the payment from being released and pays down the debt. This feature can be leveraged in the future. In addition, we have the DebtCheck program which allows agencies with lending authority to verify that applicants applying for Federal loans, loan guarantees or loan insurance do not have delinquent Federal debt.⁶ Providing portal access to multiple data sources would be an extension of the work already being done by the Fiscal Service.

Treasury's role in setting policy for financial management also enables us to develop an effective program to prevent improper payments. Congress has often looked to Treasury to play a key role in Federal financial management. The Budget Accounting and Procedures Act of 1950 and the Debt Collection Improvement Act of 1996 have codified Treasury's responsibility for coordinating financial accounting and disbursement systems. Treasury's support of the Financial Management Line of Business helped to develop government-wide standards, and leverage shared services to reduce costs and improve the quality and performance of financial management systems.⁷

Expected Challenges and Goals for the Future

While there has been tremendous support from Congress and the Administration to reduce improper payments, many challenges still remain. From a technological standpoint, obtaining, managing, sharing, and protecting such a large amount of data is a considerable undertaking. Additionally, synthesizing the work of individual agencies in preventing improper payments is a daunting task. Getting agencies to share critical information is a challenge when doing so does not fall under their scope, mission, or general business practices.

⁶ http://iasb.fmsapps.treas.gov/news/factsheets/delinquent_debtcollection_2006.html

⁷ Chief Financial Officers Council

(<http://www.cfoc.gov/index.cfm?function=specdoc&id=FMLOB%20Update&structure=OMB%20Documents%20and%20Guidance&category=Policy%20Letters/%20Memo>)

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The Fiscal Service's overall goals for this initiative are two-fold: to help agencies achieve the Administration's goal of reducing improper payments by \$50 billion through FY 2012 while at the same time safeguarding the privacy of individuals. Managing this data is an enormous responsibility and requires sensitivity and a strong adherence to the law. With this in mind, we still feel that information sharing, where appropriate, is the best solution to the improper payments problem. With data security in the forefront, the Fiscal Service can provide a technical solution that is conceptually holistic, within its mission and scope, and capitalizes on current operational capabilities. We envision the program can accomplish some of its goals within existing law, but it is likely that new legislation will be required to expand agencies' ability to share the data necessary to prevent improper payments. Treasury is working with the Administration to identify the legislation we need to build an effective and efficient program.

Treasury sees its role as the organization that will facilitate on behalf of all agencies a streamlined process for sharing data and business analytic capability, and Treasury will work in a collaborative role to assist the Federal government in reducing improper payments. We are designing the verification portal so the decision to make a payment, award a contract, or enroll a program applicant resides where it should—in the hands of those who best know the program and its business. There is a significant amount of work being done at both the agency and inter-agency level to reduce improper payments. Treasury will work with these groups to learn and build upon their successes and lessons learned.

Thank you for this opportunity to speak with you and share our role in this important initiative. I would be happy to answer any questions.

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Statement of

The Honorable Robert F. Hale
Under Secretary of Defense (Comptroller)

before the

Senate Committee on
Homeland Security & Governmental Affairs

Subcommittee on Federal Financial Management,
Government Information, Federal Services, and International Security

May 25, 2011

**Embargoed until released by the
Senate Committee on Homeland Security & Governmental Affairs**

Mr. Chairman, members of the Committee, thank you for the opportunity to discuss the actions we are taking to eliminate improper payments across the Department of Defense (DoD). Improving the quality of the financial information that we use to manage the Department, and moving toward audit readiness, represent two of my highest priorities as the Department's Chief Financial Officer. I regard our improper payments program as a cornerstone of this broader effort.

OVERALL ASSESSMENT

I am therefore pleased to report that DoD currently has a strong program to identify, report, eliminate, and recover improper payments. Improper payments occur when funds go to the wrong recipient, an ineligible recipient receives a payment, a recipient receives the incorrect amount of funds (including overpayments and underpayments), or documentation is not available to support a payment.

Based on our current reporting methods, we estimate that about one to two percent of our payments result in payments that are classified as improper. That is one to two percent too much. The only appropriate goal for improper payments is zero and, as I will indicate in this statement, we are taking steps to further improve our program. Nevertheless, our improper payment percentage is low in comparison to overall federal levels, and many of our improper payments are quickly resolved.

Our colleagues at the Office of Management and Budget (OMB) generally agree that DoD has in place a strong program to control improper payments. It is important to note that DoD improper payments are not on OMB's list of high-error programs. Indeed, OMB has

identified some of the techniques we use to combat improper payments as best practices that other agencies should consider as they seek to strengthen their programs.

Our success with improper payments is particularly noteworthy because of the size and complexity of the Department's payments. Last year the Defense Finance and Accounting Service (DFAS), which handles nearly 90 percent of our total payments, disbursed a total of \$578 billion. DFAS processed more than 168 million pay transactions, 8.1 million travel payments, and 11.4 million commercial invoices. It also handled 255 million General Ledger transactions and nearly \$500 billion in military retirement and health benefits funds. We are not only a huge organization; we are a highly complex organization. The contracts for major weapons are some of the most complex in the world and present significant payment challenges, such as those associated with progress payment terms that call for varying recoupment rates. Despite the volume and complexity of our activities, DFAS has worked hard and successfully to keep the incidence of improper payments in check. At the same time the organization has steadily reduced the cost of its operations in recent years by consolidating operations and improving productivity.

Our improper payment program can be made better. We will seek to do just that as we implement the Improper Payments Elimination and Recovery Act (IPERA) recently enacted by the Congress and take other steps to improve DoD financial management. Let me discuss each broad category of payments, including our approach to controlling improper payments and, where applicable, planned improvements.

ASSESSMENT BY CATEGORY**Commercial Payments**

For commercial payments we make heavy use of prepayment screening, both automated and manual, to prevent improper payments. One especially important tool in the prevention of commercial improper payments is the Business Activity Monitoring (BAM) software program that was introduced in August 2008. BAM is an automated prepayment mechanism that uses business rules to flag, for human review, payments that may be improper. For example, BAM would flag two payments for review if they involved the same dollar amount within the same time frame. Likewise, it would flag an invoice number that is very close to a recently processed invoice. When coupled with diligent work by DFAS technicians, BAM has prevented more than \$3 billion in improper payments in little more than two-and-a-half years.

Indeed, BAM has proven to be so successful that, in our primary paying system for contract payments, only one duplicate payment has occurred since BAM became fully operational. That payment was for approximately \$7,000 and all funds were recovered. As a result of BAM's robust preventive actions and results, the Internal Review division at DFAS determined that annual audits for duplicate payments in this primary paying system are no longer necessary. Despite this record of success, however, management continues to seek reductions in payment errors through better technician training and by using payment error analyses to improve BAM's software logic. In fact, as a result of continuous BAM refinements, improper payments decreased 66 percent the first half of this year compared to the same time frame last year, for all the systems BAM polices.

Another tool used with commercial payments is the Improper Payments On-line Database (IPOD), a centralized repository that requires DFAS sites to report and explain improper payments and record amounts recovered or reconciled. IPOD then summarizes results by system. Its data sources include unsolicited refunds, internal and external audits, customer inquiries, and the contract close-out process. Though sometimes tedious, these entries allow for a number of detailed analyses. DFAS determines the reasons for these errors, identifies emerging trends, evaluates related training program content, and zeros in on problems that are traceable to a particular group. Thanks to IPOD we are turning mistakes into learning opportunities that will prevent future errors.

Because of these and other prepayment measures, we have historically not used post-payment statistical sampling for commercial payments. This summer we plan to expand on this approach, with an emphasis on systems not currently covered by the BAM tool, as part of our efforts to implement IPERA and supplementing prepayment measures. I think we can all agree that it is better to stop improper payments before they occur, rather than after the fact.

Civilian and Military Payroll

Random statistical sampling is used at the Service and Component levels to estimate, identify, report, eliminate, and recover improper payments associated with military and civilian pay. Errors that are identified are turned over to the relevant organizations for corrective action. For military and civilian pay, we find that post-payment statistical sampling provides an effective supplement to, and validation of, existing prepayment reviews.

Nearly two-thirds of military pay errors are underpayments to Reservists and Guardsmen that occur because of unreconciled and unpaid leave balances and incorrect reporting

of entitlements. DFAS collaborates with the Military Services to correct these problems. In the civilian pay area, improper payments often result from untimely or incorrect time and attendance or personnel data entries to the pay system that subsequently necessitate additional corrective actions. Many of these errors are quickly identified and fixed during the subsequent pay period.

Travel Payments

Travel payments are subject to monthly statistical sampling that has proven useful in identifying, minimizing, and correcting improper payments. We have also begun using automated file matching among our travel systems to prevent duplicate payments.

As with payroll disbursements, Component financial managers are notified of the need for corrective action on a quarterly basis. Corrective action includes any necessary recovery of overpayments or additional payouts for underpayments. The majority of our temporary duty travel payments are made through the Defense Travel System, and we have found that most improper travel payments made using this system are due to traveler input errors that are missed by the approving officials. Components that make travel payments through systems other than the Defense Travel System follow similar procedures and report their results.

Retired and Annuitant Pay

We use post-payment statistical sampling for retired and annuitant pay, with specific emphasis on recapturing payments to deceased retirees when notifications are not made in a timely manner. In addition to random statistical samplings of retiree and annuitant pay records, an automated search is conducted each month to identify and recapture any payments made to deceased individuals for retired and annuitant benefits. Periodic special reviews are undertaken

in potential high risk areas such as Combat-Related Special Compensation, Concurrent Receipt of Disability Payment, and new retiree and annuitant accounts.

In FY 2010, retirement and annuitant benefits totaled \$43.2 billion, with errors accounting for only 0.14 percent of the payments made, or \$58.5 million. Of that amount, 96 percent was recovered within 60 days.

Payments by Other Organizations

The five payment categories that I have just discussed are the largest ones in DoD and are handled primarily by DFAS. But payment operations occur in multiple organizations across the Department. And many of these organizations have implemented what we believe are strong programs to estimate, identify, report, eliminate, and recover improper payments.

Two noteworthy examples are the U.S. Army Corps of Engineers and the TRICARE Management Activity. The U.S. Army Corps of Engineers conducts statistical sampling for all commercial payments and a 100 percent review of all travel payments over \$2,500, as well as a statistical sampling of those below \$2,500. It has also used a recovery audit for FY 2010 that recaptured 99 percent of all overpayments.

At the TRICARE Management Activity, home of vital military health benefits programs, stringent contract performance standards are employed that involve stratified statistical sampling based on dollar amounts and payment types. The contractor actually making the payments is incentivized by contract terms to minimize any improper payments and penalized when performance standards are not met. In addition, the comprehensive annual post-payment audit by an external independent contractor established an improper payment rate of 0.42 percent for FY 2009, representing about \$49.1 million in improper payments.

RECENT AUDIT RESULTS

Despite what we consider a strong program to control improper payments, two recent audits have cast doubt on the efficacy of DoD's improper payments program. We believe both audits are overstated and, in some cases, misleading.

In March, the Department's Inspector General concluded that the Department is not complying with Executive Order 13520, specifically the President's order to identify high-dollar improper payments to individuals and entities. The Inspector General's conclusion was based in part on a claim that we did not review some \$167.5 billion in quarterly distributions. This conclusion is overstated and misleading for two primary reasons:

- \$73.1 billion of that amount involves routine annual transactions from the Treasury to the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund accounts. These are fully supported, internal, automated transfers between government agencies. Because these payments are reviewed when individually disbursed, it would be redundant to review the larger transfers for improper payments.
- Another \$27.3 billion represents disbursements between agencies, most of which are processed via the Intragovernmental Payment and Collection system. Again, these are fully supported, internal, automated transfers between government agencies and, according to OMB guidance, are not subject to review for improper payments.

The remaining \$67.1 billion called into question by the DoD Inspector General comes from a variety of sources: Army Corps of Engineer outlays, TRICARE Management Activity

payments, overseas financial office disbursements, payments in support of contingency operations (including operations in Afghanistan), classified activities, and disbursements made by other agencies on DoD's behalf. I have already mentioned efforts by the Army Corps of Engineers and TRICARE to manage improper payments. Contingency payments over \$3,000 are subject to a thorough prepayment review when they are sent back to the DFAS center at Rome, New York, for review and disbursement. Classified payments, of course, are not disclosed publicly but are subject to review. Payments made by other agencies on the Department's behalf, such as those made in remote overseas locations by Department of State offices that cite DoD funds, are relatively small in dollar value but will be reviewed more closely to ensure that appropriate controls are in place.

We also are concerned about the conclusions of a 2009 report by the Government Accountability Office (GAO). The GAO concluded that the Department of Defense had failed to review more than \$300 billion in disbursements in the form of commercial payments. We did not concur with these findings. As I noted above, these payments are subjected to rigorous prepayment reviews, post-payment controls, and reporting – all of which were consistent with OMB guidance at the time. The GAO recommended that these commercial payments be subject to a risk assessment and post-payment statistical sampling. In view of the IPERA legislation, and more recent OMB guidance, we are taking the steps I noted above to initiate a statistical sampling program.

CONCLUSION

I have discussed our specific approaches to control improper payments. More generally, we have an aggressive program at DoD to improve financial information and move toward

meeting commercial audit standards. I believe this program, which we call the Financial Improvement and Audit Readiness program, will further reinforce our efforts to control improper payments, while also establishing an infrastructure that will allow us to do more in-depth analysis of source documentation where appropriate. We also cooperate fully with government-wide efforts to improve financial management. For example, we were recently asked by OMB and Treasury to participate in an upcoming pilot project scheduled for later this year, and we are happy to participate in this new effort. The pilot project will help identify ways we can further reduce improper payments by ensuring that people and entities who receive payments are eligible, and identifying fraud with the use of forensic technology.

During my tenure as DoD's Chief Financial Officer, I have stressed the need to improve financial management within DoD and have introduced several key initiatives. I assure you that efforts to continue to comply fully with IPERA, the Executive Order on improper payments, and other Presidential directives, constitute an important part of those initiatives.

I welcome your questions.

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VICE CHAIRMAN, RECOVERY ACCOUNTABILITY AND TRANSPARENCY BOARD
BEFORE THE SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
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MAY 25, 2011

Mr. Chairman and Members of this Subcommittee, I want to thank you for the opportunity to appear before you today in my role as Vice Chairman of the Recovery Accountability and Transparency Board (Board). Today I will be speaking about the accomplishments of the Board, with particular emphasis on our use of technology in accountability and fraud prevention. After my opening remarks, I will be glad to answer any questions you have for me.

The American Recovery and Reinvestment Act, Public Law No. 111-5 (Recovery Act), was enacted in February 2009. The Recovery Act established our Board – a Board composed of Inspectors General (IGs) – and tasked us with a dual mission: transparency and accountability of Recovery Act funds. The Recovery Act explained in great detail what the Board would have to do to achieve the “Transparency” in our title, setting forth more than a dozen specific requirements. For example, we were required to set up a public-facing website that would provide information about the Recovery Act; detailed information on contracts and grants; IG audit findings; agency plans; job opportunities; and so forth.

However, with respect to our accountability mission, some particular functions were listed in the law, but overall, the statutory guidance was considerably less specific. Under the law, the Board must coordinate and conduct oversight of Recovery funds “to prevent fraud, waste, and abuse.” As Inspectors General (IGs), all of the Board members

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are well-versed in fraud prevention and detection, which are part of our mandate under the Inspector General Act of 1978.

This massive economic stimulus, however, was like nothing any of us had dealt with previously. It was an infusion of billions of dollars that agencies were directed to disburse as quickly as possible. Smaller programs – such as weatherization and rural broadband – were getting an influx of funds like never seen before. Approximately \$275 billion was set aside for contracts, grants, and loans, and roughly \$224 billion was to be paid out in entitlements.

Early on, the Board realized that the old law enforcement paradigm of detecting fraud after it had occurred – the pay-and-chase model – needed to be bolstered by a heavy dose of prevention. To accomplish these oversight goals, we built the Recovery Operations Center, or ROC. As I will explain in greater detail, the ROC combines traditional law enforcement analysis with sophisticated software tools, government databases, and open-source information to track the money.

Let me present for you an image that many find helpful. If you picture fraud as not just the point in time where the scofflaw gets away with the crime, but rather as a set of points occurring on a timeline, you realize that there are an indeterminate number of steps along the way where enforcers can prevent or interrupt the commission of the fraud and prevent government funds from winding up in the wrong hands. That is what the Board strives to do with the Recovery funds: intercept the commission of fraud as early as we possibly can.

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To help us in that goal, we pulled together an accountability solution that provides an in-depth fraud analysis capability that utilizes a vast amount of public information (currently more than 13 million risk-relevant, global public records, and still growing) about entities receiving Recovery Act funds in order to identify non-obvious relationships between parties. These relationships can unveil facts that may not have been transparent to government officials at the time of contract or grant award. Using this tool has resulted in leads for investigations and audits, identified added risk factors, and pointed to excluded parties receiving Recovery Act funds.

This accountability solution, housed in the ROC, also provides a predictive-analysis model in order to focus limited government oversight resources (for example, auditors, investigators, and inspectors) where they are most needed. Simply stated, the Board looks at multiple risk factors to determine the most susceptible areas of fraud or waste. These risk-prone areas may be segregated by program, federal agency, or geographic region.

To add to the ROC's toolbox, the Board has recently begun to develop what can best be termed a "fraud-risk scorecard." Similar to the scores that have been successfully used for years by the credit industry in making credit-granting determinations, the fraud-risk scorecard is intended to be a risk-predictive tool that uses mathematical models to detect fraudulent transactions. We are currently examining past historical data and data patterns in order to make the scorecard as reliable as possible, and will start the validation process upon completion of the development stage.

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While technological advances and even statistical algorithms are certainly a boon for the oversight community, it bears stating that these high-tech tools do not operate by themselves. Without the right personnel – people who can put the data into the proper context and truly interpret and understand it – the seas of information out there could just amount to meaningless noise. The Board's skilled analysts look for early warning signs of trouble. Using the tools in the ROC, they can search multiple databases, looking for criminal convictions, lawsuits, tax liens, bankruptcies, risky financial deals, and suspension and debarment proceedings. Once the analysts recognize something as a warning sign, they go deeper into the data, performing an in-depth analysis before sharing their report with the appropriate agency Inspector General for further inquiry.

The Board initiates its analyses based on three sources of information: hotline complaints from the public, requests for assistance from other government agencies, and the Board's own proactive review of Recovery awards.

First, our public "hotline" actually consists of a phone number, fax number, a web-based form on Recovery.gov, and even a mailbox for old-fashioned letters. We have referred more than 200 complaints to the appropriate law enforcement entity for further inquiry.

Second, the Board receives requests for assistance from both federal and state oversight officials. Since the Board's inception, nearly 400 analyses have been conducted by the ROC in response to requests for assistance by various government agencies. These requests have included:

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- A U.S. Attorney requested an analysis of a real estate development company. A Board analyst discovered that the company had a \$9.5 million grant pending from the Department of Housing and Urban Development, through the state of Indiana. Upon further analysis, it turned out that the company was a joint venture with a firm owned by four individuals who had previously been convicted of fraud and embezzlement. The U.S. Attorney requesting the investigation had prosecuted these individuals in 2006, but was unaware of their relationship with the company and its owner.
- An Assistant U.S. Attorney requested an analysis of six people who were indicted for fraud-related crimes involving the Medicare program. A Board analyst tied those individuals to 120 medical businesses, about a quarter of which had been unknown to the prosecuting attorney. The new information can now be used to strengthen any potential criminal sentence.

Last, the Board initiates preliminary investigations based on the knowledge and experience of its skilled analysts. Since the Board's inception, 260 leads have been internally generated by the Board's accountability staff, including:

- A construction company had much of its \$9 million in Recovery contracts rescinded after a board investigator found that the firm had been suspended from doing business with the federal government.
- A Board investigator determined that a \$1 million set-aside contract was awarded to a company that no longer qualified as a small business in a

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historically-underutilized business zone because the ownership had changed. As a result, the awarding agency rescinded the contract.

- A Board analyst recently found 6 companies that had improperly received a combined \$2.6 million in Recovery contracts because they are currently suspended or debarred from doing business with the federal government. These leads were referred to the appropriate IG's office for further inquiry.

Of course, given the success of the ROC, the Board is not content to rest on our accomplishments to date. Rather, we are envisioning ways to share our preventative efforts with the greater oversight community – and agency awarding officials as well.

Earlier this year, the Board began testing a pilot program allowing four IG Offices to remotely access the ROC's tools. Trained personnel at these OIGs – all of which have Recovery fund oversight responsibilities – can themselves now scan and analyze data within the ROC, utilizing a secure portal.

Although this pilot program is currently limited to a few IGs, the Board has discussed the utility of bringing agency procurement and grant personnel to the table as well. One lesson the Board has learned over the past two and a half years is that our interrelated transparency and accountability tools are useful from a program as well as an oversight perspective and agencies and the IG community should have access to both. While these two pieces can clearly assist the investigatory and auditing functions of the IGs, the accountability *and* transparency data can also help agencies improve agency functions and administration. Typically, when the goal of an initiative is fraud detection, IGs come to

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the table with a great deal of enthusiasm while agencies seem less motivated. In overseeing these Recovery funds, the Board has learned that when the common goal is fraud *prevention*, agencies and IGs are equally enthusiastic, and a remarkable collaborative effort takes place between the two.

The Board is eager to continue assisting agencies in our common goal of preventing fraud. When Board Chairman Earl Devaney appeared before this Subcommittee in September, he testified that the ROC's tools were being tested in a pilot involving the Centers for Medicare and Medicaid (CMS). In the pilot, CMS partnered with the Board to investigate a group of high-risk providers. At the time of Chairman Devaney's testimony, the pilot had not been completed. I can now tell you that, by linking public, open-source data with other information like fraud alerts from other payers and court records, the pilot uncovered a potentially fraudulent scheme. The data confirmed several suspect providers who already were under investigation and, through link analysis, identified affiliated providers who now also are under investigation. Board analysts found that several providers recently accepted into the Medicare program involved individuals who were banned from doing business with the federal government at the time of enrollment. Our analysts also identified many others as having close ties to networks of entities known to have perpetrated fraud in the past, as well as a pattern of Medicare fraudsters using legitimate doctors' medical ID numbers in states far removed from where those doctors had their true practice.

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In another interagency collaborative effort, the Board is working with the Veterans Affairs OIG to find firms that establish shell companies in order to receive Recovery monies through set aside and sole-source contracts awarded to Service-Disabled Veteran-Owned Small Businesses (SDVOSB). To date, more than 150 potential shell companies have been identified as warranting further investigation by the appropriate IG. Approximately half of these identified companies were awarded more than \$1 million each in Recovery funds. It should be noted that more than \$1 billion in sole-source and set-aside Recovery contracts were awarded to SDVOSBs.

Going forward, we are striving for new ways to expand our usefulness and share our tools with the most appropriate parties. One change from current practice that would make the ROC considerably more robust would be an exemption for the Board, the IGs, and the Council of Inspectors General on Integrity and Efficiency from the computer matching provisions of the Privacy Act. Such a statutory exemption, which was introduced last year in the House of Representatives Committee on Oversight and Government Reform, would allow us to compare data from different systems of records to detect improper payments and fraud. It could also give us the ability to identify proactively federal programs that are vulnerable to fraud, waste, and abuse of federal dollars.

In summary, the Board – which did not even exist just three short years ago – has demonstrated that with the right tools, right personnel, and right goals, the government can take fraud prevention to new heights. By working to detect *and* prevent fraud in

TESTIMONY OF THE HONORABLE CALVIN L. SCOVEL III
VICE CHAIRMAN, RECOVERY ACCOUNTABILITY AND TRANSPARENCY BOARD
BEFORE THE SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION, FEDERAL SERVICES & INTERNATIONAL SECURITY
UNITED STATES SENATE
MAY 25, 2011

Recovery awards, the ROC has served the Board, the greater oversight community, and the American taxpayers.

Mr. Chairman, this concludes my prepared testimony. Thank you for this opportunity. I will be happy to answer any questions you or other Members of the Subcommittee might have.



**HEARING BEFORE
COMMITTEE ON HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES, AND
INTERNATIONAL SECURITY
UNITED STATES SENATE**

ASSESSING EFFORTS TO ELIMINATE IMPROPER PAYMENTS

MAY 25, 2011

**STATEMENT OF
KELLY CROFT
DEPUTY COMMISSIONER FOR SYSTEMS**

Chairman Carper and Members of the Subcommittee:

Thank you for inviting me to discuss the Social Security Administration's (SSA) efforts to eliminate improper payments. As requested, I will focus on our collection and distribution of death information. These efforts protect the integrity of our programs as well those administered by other Federal and State agencies. First, I would like to describe briefly who we are and what we do.

Mission and Work of SSA

For over 75 years, Social Security has touched the lives of virtually every American, whether it is after the loss of a loved one, at the onset of disability, or during the transition from work to retirement. Our programs provide a safety net for the public and contribute to the increased financial security for the elderly and disabled. Each month, we pay more than \$60 billion in benefits to almost 60 million beneficiaries. These benefits not only provide a lifeline to our beneficiaries and their families, but also are vital to the Nation's economy.

Americans request a staggering amount of service from our agency. For example, each day almost 200,000 people visit our network of about 1,300 field offices and over 450,000 people call us for a variety of services such as filing claims, asking questions, and changing direct deposit information.

In the last three years, we have demonstrated the link between adequate funding and our ability to deliver—Congress increased our funding, and we made real and measurable progress. We reversed many negative trends, most notably with the hearings backlog, and significantly improved service and stewardship efforts. We made these improvements even though we have had to absorb increases in workloads due to the economic downturn. Without continued adequate funding, much of our hard-earned progress will slip away.

Our progress would not have been possible without smart use of technology. We have evolved from a paper-based organization to one that relies heavily on robust information technology. Most of our internal work processes are electronic and we have a number of highly regarded Internet applications for public use. We also manage over 1,500 data exchanges with other entities, as allowed by law.

In fact, Congress recently demonstrated its understanding that jobs and lives depend on us doing our work without interruption in technology operations, and provided funding for a new data center to replace our 30-year-old National Computer Center.

Death Information Collection

Each year, we receive over 2.5 million death reports from multiple sources including family members, funeral homes, States, financial institutions, and other Federal agencies. We match the information against our payment records so that we can stop benefits for a

beneficiary who has died, and if applicable, to start the process to establish benefits for any eligible survivors. We also retain a record of the death in our files and currently have over 92 million death records.

Although a large number, 92 million entries are obviously not a complete record of all deaths that have occurred in the United States. Our files reflect the information we have received in the course of doing Social Security work, and clearly, the absence of a name in our records does not mean that a person presumed deceased is alive. It is also important to note that we do not independently verify the accuracy of all incoming death records. We utilize time-tested tolerances to presume accuracy of some death reports, and for others, if we have no business reason to use the death record then we post it to our files as unverified.

Unfortunately, some of the death data that we post to our records – under 1 percent – proves to be wrong and we correct it as soon as possible. We usually learn of an incorrect death posting when a beneficiary calls us to inquire about the cause for a late check. Usually the error was caused because of a human typing error when death information was entered into a computer system. The primary solution to ending these errors is a process called Electronic Death Registration (EDR).

Electronic Death Registration

Since 2002, we have been working with the States and other stakeholders to develop EDR. In participating states, EDR replaces a more labor-intensive and error-prone process through which the States transmit death information to us. Through EDR, we usually receive death reports within 5 days of the individual's death and within 24 hours from the States' receipt of the report. EDR death reports are highly accurate.

EDR has expanded on a state-by-state basis since 2002, and currently 30 States, the City of New York, and the District of Columbia participate in this initiative. We reimburse States on a per item basis for EDR death reports. For reports received within a few days, we pay about \$2.80 per record. If all States submitted all death reports through EDR, death reporting would be faster and virtually error free. The continuing rollout of EDR depends on Congress providing sufficient funds to the Department of Health and Human Services to provide State grants to aid their transition efforts.

Distribution of Death Information

As noted, in the course of doing Social Security business, we have collected over 92 million death records. Recognizing the broader value of death information to support accurate benefit payments by other government programs, and also to help prevent fraud, waste, and abuse, many other public and private organizations desire access to the death information we maintain.

As required by the Social Security Act, we provide our death information, including both verified and unverified records, on a regular basis and via electronic means to Federal

benefit paying agencies, which use the data to conduct matches against their own beneficiary rolls. These agencies either reimburse us for this information or they provide us with information we need on a quid pro quo basis.

We also provide more limited death information from our death records to other entities, including the Department of Commerce's National Technical Information Services, which then sells it to the public.

To provide a sense of scale for these exchanges, we post about 48,000 new death reports a week. We advise users of the data about its limitations—that we cannot guarantee its accuracy, that not all deaths are included, and that it is possible for a living individual's information to be erroneously included—and the need to use the information in a responsible manner.

We believe careful re-use of death information in our records supports the Government-wide effort to maintain and assure the integrity of Federal programs and protect taxpayer funds. We will continue to share information in our records to the extent allowed by statutory and budgetary limitations.

Conclusion

Through numerous agreements with Federal and State agencies, we receive data to support our own programs, and in turn, we provide data to support State and other Federal agencies' programs. The Government Accountability Office and others have reported that the data we provide are essential to helping our State and Federal partners streamline operations, reduce costs, and eliminate improper payments and fraud.

The continued success of our programs is inextricably linked to the public's trust in them. Properly managing our resources and protecting data related to hundreds of millions of Americans is critical to that trust. We are firmly committed to sound management practices to prevent improper payments, and we are glad that death information from our files can support the President's initiative to ensure agencies are checking all applicable eligibility databases prior to making a payment or authorization.

I will be pleased to answer any questions.

**Post-Hearing Questions for the Record
Submitted to the Honorable Daniel I. Werfel**

**“Assessing Efforts to Eliminate Improper Payments”
May 25, 2011**

From Senator Claire McCaskill

- 1) During Mr. Hale’s testimony he stated that “. . . and it’s important to note that DOD’s improper payments are not on OMB’s list of higher programs. Indeed, OMB has identified some of the techniques we use to control improper payments as best practices.” While an impressive accolade I am having trouble understanding how DOD practices in the improper payment area are best practices. DOD has yet to fully implement IPERA and they do not verify their commercial contract payments.
 - a) Can you explain to me what OMB looks for when determining best practices? In particular, can you clarify what processes DOD employs which would put them on that list?

OMB continues to work with DOD to meet the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and to improve its financial management and internal controls environment. While we recognize that more work remains to be done to improve DOD’s efforts, one area in which DOD is excelling is its use of pre-payment technology to prevent improper commercial contract payments. Although DOD is still improving its operation and use of this technology, it has already prevented billions of improper commercial payments from being made. Because of its innovative use of technology to prevent payments from being made, as well as its success in detecting and preventing potential improper payments, we have identified DOD’s pre-payment technology as a best practice for other agencies to consider implementing.

- 2) Prior to this hearing, the full committee heard about duplication in the federal government. Mr. Scovel from The Recovery Accountability and Transparency Board (RAT Board) stated in this hearing that the vision outlined by you already exists at the RAT Board. It is the RAT Board’s position that their capability could be enlarged and exploited for the common good, in this case to help eliminate and recover improper payments. Instead of just focusing on fraud, the RAT Board would imbed the needed capabilities into their own recovery center.
 - a) Some adjustments would have to be made but I believe the infrastructure may already exist at the RAT Board; OMB and Treasury could piggyback on them thus cutting cost, increasing the time to full implementation, and taking advantage of the expertise the RAT Board brings to the table. Has OMB and Treasury met with the RAT Board to discuss how you could harness their existing system and processes to meet your goals?

Yes, OMB has worked closely with the Recovery Accountability and Transparency Board (RATB) over the past two years. Specifically, we have seen the success of the RATB's Recovery Operations Center (ROC) in identifying potential cases of fraud and improper payments in Recovery Act funds, and have partnered with the RATB in conducting pilots with the Centers for Medicare & Medicaid Services (CMS) and the Department of Veterans Affairs (VA).

The Government Accountability and Transparency Board (GATB), established by Executive Order (EO) on June 13, 2011, is evaluating strategies for expanding the use of Recovery Board tools across government. Pursuant to the EO, the GATB will issue recommendations to the President in December 2011. Of note, representatives from OMB, Treasury, and the RATB all have seats on the GATB.

- b) Have you been able to identify ways you can utilize the existing system and process at the RAT Board? If so, how?

As noted above, we have seen the success of the type of technology utilized by the RATB in identifying and detecting possible instances of waste, fraud, and abuse in Recovery Act funds. For that reason, in June 2010 the Vice President announced that we would pilot the use of this type of technology with Federal agencies, and if successful, expand the use of this technology. Since the June 2010 announcement, we have worked with the RATB to conduct pilots with CMS and VA to determine if these types of technologies and tools could also be applied to other types of non-Recovery Act funding, and have seen the success of those tools.

In the June 13, 2011 EO, the President directed the GATB to examine lessons learned from the RATB, including evaluating strategies for expanding the use of these types of technologies and tools across government. Pursuant to the EO, the GATB will issue recommendations to the President in December 2011 on this and other issues.

- c) If you believe the RAT Board process and system are insufficient or incompatible with your goals for eliminating improper payments, please explain how it is incompatible or insufficient? Additionally, if you have chosen not to utilize the existing RAT Board system, please identify how creating a different or new system for eliminating improper payments will be the best use of federal taxpayer funds and more efficient.

As noted earlier, the technology and tools used by the RATB have been successfully used in oversight of Recovery Act funds. In addition, the RATB's tools and technology have also been successfully piloted with VA and CMS, and we believe these tools have a role to play in a government-wide solution for improper payments. That is why the President directed the GATB to examine these tools and technologies and determine if and how their use can be expanded across government. In its December 2011 report to the President, the GATB will make recommendations on how to use new tools and technologies to enhance oversight of all Federal funds.

Post-Hearing Questions for the Record

Submitted to the Honorable Daniel I. Werfel
“Assessing Efforts to Eliminate Improper Payments”
May 25, 2011

From Senator Scott P. Brown

- 1) In Mr. Hale’s testimony, he notes that no DoD programs are in OMB’s list of the top fourteen federal programs at-risk for significant improper payments. Yet in the DoD IG and GAO reports, they point out that some major DoD programs are exempt from the statutory reporting requirements. How are we to be sure that DoD’s exclusion from the “top-14” list is a result of at-risk DoD programs favorably reporting low error rates and not the fact that a significant amount of improper payment details have gone unreported?

Under the IPIA, as amended by IPERA, as well as OMB’s implementing guidance, agencies are responsible for conducting risk assessments to determine which programs or activities are susceptible to significant improper payments (significant improper payments are currently defined by IPERA and OMB’s guidance as at least \$10 million and 2.5% of program outlays, or \$100 million). If a program or activity is determined to be susceptible to significant improper payments, then the agency must establish an improper payment measurement methodology, calculate and publish an improper payment rate and amount, institute corrective actions to address the causes of improper payments, and establish reduction targets to drive agency performance.

OMB works closely with agencies to ensure that their risk assessments are robust and that all significant sources of error are identified. In addition, auditors – like agency Inspectors General and the Government Accountability Office – are important partners in ensuring the effectiveness of an agency’s risk assessment practices. These independent entities review agencies’ implementation of and compliance with improper payment requirements and frequently provide recommendations to management on how to improve their compliance with the law. Lastly, under IPERA, agency Inspectors General are now required for the first time to review a series of factors – including risk assessments and measurements – to determine if agencies are in compliance with IPERA. I believe that this compliance provision is one of the most significant pieces of the new law, and believe that it will help identify any instances of non-compliance with IPERA, including improper payment details going unreported.

- 2) The IG report specifically mentions \$167.5 Billion that was not reviewed by DoD. In Mr. Hale’s testimony, he points out that around \$100 billion of this amount are intergovernmental transfers and therefore, according to OMB guidance, are not subject to review for improper payments. This is a significant amount of money.

a. Can you explain why intergovernmental transfers are not subject to review?

Under Section 2(F)(3) of IPERA, the term “payment” is defined as “any transfer or commitment for future transfer of Federal funds [...] to any non-Federal person or entity [...]”. Under this definition, payments made between and among Federal agencies – including intergovernmental transfers – are excluded from IPERA’s requirements.

We have several priorities associated with improving the framework for intergovernmental transactions, including the development of solutions that will provide a more efficient mechanism to track, confirm, and reconcile the details of such transactions.

b. Is there no chance for error in these programs?

Yes, there is a chance for error in these intergovernmental transfers and such errors can also impact the government’s bottom line, but there is separate mechanism in place to ensure agencies are held accountable to prevent them. For example, one type of an intergovernmental transaction is when one agency pays another for a service. If the agency pays the wrong amount and it is not quickly detected and corrected, this could negatively impact the agency’s ability to manage its accounts correctly and therefore effectively manage its cash. Through the financial statement audit process, agency controls over intergovernmental transfers are closely scrutinized by independent auditors and weaknesses in such controls can lead to findings that ultimately impact the agency’s ability to maintain a “clean” audit opinion.

c. Are there other significant programs with high dollar amounts that are exempt for improper payment reporting outside of DoD?

i. If so, which ones?

As noted earlier in my response, IPERA now exempts payments to Federal persons or entities from having to meet these requirements. Pursuant to OMB guidance (see Circular A-123, Appendix C), “[i]n limited cases, and with prior approval from OMB, an agency may implement a measurement approach that excludes improper payments that have been subsequently corrected and recovered from the annual total reported in its Performance and Accountability Report (PAR) or Annual Financial Report (AFR).” There are no other exemptions. All other areas are subject to a risk assessment and if the agency determines the program or activity to be susceptible to significant improper payments, it must initiate a measurement of the program and comply with other relevant requirements in IPERA.

ii. Why are they exempt?

Intergovernmental transfers and payments to Federal employees are exempt by law.

3) In DoD’s testimony from the May 25th hearing, Mr. Hale explains that the Department’s prescreening process for commercial payments is assisted by an important system called the

Business Activity Monitoring (BAM) tool. In a DoD IG report, it noted that the “false positive” rate for BAM was a surprising 95%.

a. Since prescreening for eligibility is such an important focus of future reductions in improper payments, was BAM considered as a possible solution to expand beyond DoD?

i. (If not,) Why wasn't it considered? What were its limitations?

ii. (If so,) What are the plans for it?

Yes, we believe that screening payments to identify potential improper payments before they are made is an effective method for preventing and reducing improper payments. This is one of the reasons why we have highlighted DOD's efforts as a best practice for other agencies to consider implementing. We also frequently mention this sort of pre-payment technology in our meetings with agencies, thus encouraging them to learn more about these technologies and, if possible, pursue obtaining these types of tools and technologies to prevent improper payments before they are made. In addition, the verification portal that Treasury is standing up will also use this type of technology employed by DOD to screen payments and awards before they are made, and to identify potential improper payments that should be closely examined by agencies.

b. Do you consider a 95% false positive rate an effective tool considering the resources that may be required for further analysis?

I understand that a high false positive rate can require additional resources – including staff, time, and money – to investigate these payments to determine if they are improper or not, and support efforts to lower falsely flagged payments. While I believe DOD is making progress and reducing its false positive rate, I understand that part of the process is learning from these false positives to put in place better algorithms and screening requirements that flag true improper payments rather than falsely flag proper payments, and lower the false positive rate.

c. How are these concerns being addressed with the new Do Not Pay portal?

As you may know, OMB and Treasury are currently building a verification portal to implement the Presidential memorandum of June 2010 directing the establishment of a central location linking together certain eligibility databases. We certainly do not want the verification portal to have a high false positive rate that delays payments or awards to eligible beneficiaries, contractors, grant recipients, or other recipients. Accordingly, the portal is being built in such a way as to flag potential improper payments based on risk factors like potential matches in an agency database that would be indicative of ineligibility for a particular program, or contract award.

As we gather more experience in analyzing these potential improper payments, we will be able to better refine the portal's tools to ensure that we have a high likelihood of flagging payments that are truly improper rather than any false positives.

- d. What are some of the other technical concerns or limitations of the Do Not Pay portal and how is OMB and Treasury addressing those issues?

As noted in my testimony, we are proceeding deliberately to comply with all applicable laws, regulations, and policies regarding the Federal Government's use and sharing of personally-identifiable information. During the course of this work, we are discovering that increasing agency access to relevant data sources as well as driving efficiencies in the current process for inter-agency data sharing may improve improper payment outcomes. However, such steps must be carefully weighed against the need to protect privacy and ensure data security. We welcome the opportunity to work with this Subcommittee and others in Congress to carefully examine these issues and determine whether reforms can be identified that successfully balance these various objectives.

- 4) Another criticism of the DoD IG from the March report was that there is no standard methodology in place for reviewing flagged transactions identified by the Business Activity Monitoring (BAM).
- a. In regards to the Do Not Pay portal, what are the processes and procedures being put in place to ensure that all agencies are using the system as intended?

We understand that the verification portal will be a new tool that will require OMB and Treasury to ensure that it is being used properly. We are working closely with Treasury to ensure that processes and procedures are being put in place to allow for this. Specifically, we are working to ensure that only certain employees are able to access the portal and different databases contained within the portal. In addition, as part of the roll-out process, Treasury will be training agency users on how to use the portal as well as what to do when potential improper payments are flagged. Lastly, Treasury is also establishing a call center that will be able to answer any questions that agency users may have about the verification portal or any payments that are flagged as potentially improper.

- b. Will OMB be issuing further guidance once the portal is launched?

We expect instructions will be issued (either by Treasury or OMB), once the portal is launched, that describes how agencies are to use the portal. In addition, as noted above, Treasury will also train agency users in using the portal, and will have a call center to answer any questions that agency users may have.

- c. How will OMB or Treasury ensure agencies are following that guidance?

After the portal is being used by agencies, Treasury and OMB will work with agencies to ensure they are using the verification portal appropriately and in a manner consistent with the intent. For instance, we will monitor usage and periodically meet with agencies to

understand how the portal is being used to ensure that agencies are appropriately following the instructions.

- 5) \$10 million is in the President's budget for standing up Treasury's "Data Analytics Center" which will run the Do-Not-Pay portal and perform other fraud investigations. The Recovery Board already has a Recovery Operations Center.
- a. How can the federal government better leverage the investment in people and infrastructure that has already been made at the Recovery Board once their mandate ends?

OMB has worked closely with the Recovery Accountability and Transparency Board (RATB) over the past two years. One of the areas that we have collaborated with the RATB on is the use of technology to identify and prevent improper payments. Specifically, we have seen the success of the RATB's Recovery Operations Center (ROC) in identifying potential cases of fraud and improper payments, and have partnered with the RATB in conducting pilots with the Centers for Medicare & Medicaid Services (CMS) and the Department of Veterans Affairs (VA).

The Government Accountability and Transparency Board (GATB), established by Executive Order on June 13, 2011, is evaluating strategies for expanding the use of Recovery Board tools and infrastructure across government. Pursuant to the EO, the GATB will issue recommendations to the President in December 2011. Of note, representatives from OMB, Treasury, and the RATB all have seats on the GATB.

- b. What will be required from Congress to do this?

We are already incorporating many lessons learned from the RATB into our oversight and management practices with agencies, and will continue to work with the RATB and Congress, as well as the GATB, on further improving agency efforts. In addition to the specific request for funds made in the President's FY 2012 Budget, we are exploring potential legislative reforms that would appropriately streamline agency access to various data sources while addressing critical privacy and data security needs. We look forward to working very closely with Congress on these issues.

- 6) The last hearing before this Subcommittee specifically on this broader issue of improper payments was in January of 2008. At that hearing, you testified that trends in data showed that agencies were moving toward closing all reporting gaps so that "the full extent of government-wide improper payments will be available within a few years." In recent testimony, GAO has questioned whether or not all major at-risk programs are currently reporting improper payment estimates, noting that Medicare Part D is not currently reported.

- a. Three years on from 2008, how do you feel about progress today? Do you stand by that statement?

- i. If so, why?

Yes, I believe that agencies are continuing to make great progress in identifying and measuring improper payments, and implementing corrective actions to reduce the root causes of their improper payments. This progress can be seen through the decrease in the government-wide improper payment rate that we reported in FY 2010 (5.49% compared to 5.65% in FY 2009). Of note, progress in better identifying and measuring improper payments can also be seen through the increase in improper payment amounts since 2008. The spike in improper payments between 2008 and 2009 is due, in large part, to a more conservative and inclusive error measurement methodology in Medicare Fee-for-Service. But I am confident that as agencies continue to identify root causes and put in place corrective actions to address these root causes, we will continue to see the government-wide improper payment rate decrease.

While we still do not know the full extent of the amount of government-wide improper payments – Medicare Part D and several other programs that are susceptible to significant improper payments are still working to establish their measurement methodologies – I believe that we are continuing to make progress. This year, we expect the Department of Health and Human Services to report a composite error rate and amount for Medicare Part D for the first time. In addition, we are continuing to work with HHS and other agencies in establishing measurements for the few remaining programs that do not have a measurement methodology in place at this time.

- ii. If not, where do you see gaps in reporting and compliance? How are they being addressed?

We are working to ensure that agencies are meeting the new requirements in IPERA as well as the existing requirements under IPIA. We try to ensure that agencies are meeting these requirements through direct interaction and oversight with agencies, as well as inter-agency groups like the Chief Financial Officers Council.

As noted above, one area that we continue to work with agencies on is establishing improper payment measurement methodologies for all programs that are determined to be susceptible to significant improper payments. In addition, we are also working with agencies to meet the most challenging aspects of IPERA, including the expansion of recovery audits to outlays beyond contract programs.

With agency Inspectors General now responsible for determining agency compliance with improper payment requirements under IPERA, I believe this will also help us identify any gaps in reporting and compliance that we can then work on with the agencies to address.

- b. In light of recent GAO criticism that challenges remain, what are the most significant issues holding agencies back from making more progress and doing so faster?

While I believe that progress has been made in addressing improper payments, I agree that challenges remain in further addressing improper payments. These challenges which we are facing and which are holding agencies back from making further progress are multi-faceted, but include:

- Competing and legitimate policy interests (e.g., efforts to prevent payments errors should be balanced against the need to protect individual privacy and ensure beneficiary access for those that are truly eligible);
- Complex program rules and requirements, some of which are statutory requirements created by Congress;
- Agencies have not always kept pace with technological advancements and tools used by the private sector.

The Administration is committed to overcoming these challenges and working with Congress to do so. The President's FY 2012 Budget includes a series of common sense, practical reforms that if enacted would result in \$160 billion in program integrity savings over 10 years. OMB is working with the RATB, the GATB, and Treasury on advancing technologies that ensure that we are leveraging the power of the "information age" to help in the battle against improper payments. Lastly, OMB is engaging senior leaders at agencies that are the largest contributors of improper payments and working with them to strengthen and transform their corrective actions and strategic priorities on this critically important issue.

CHARTS No.: SHSGACFEDMGMTGOVT-02-001

Hearing Date: May 25, 2011

Committee: SHSGACFEDMGMTGOVT

Member: Senator McCaskill

Witness: USD(C) Hale

Question: #1

DoD Process to Stop Payments

Question: During your testimony you highlighted the success of the Department of Defense's (DOD) system of stopping improper payments before they are made, in particular, you reference DOD's payments to commercial contractors which make up about two-thirds of the payments made by your office. Your practice is to stop these improper payments before they are made using two tools: 1) the Business Activity Monitoring (BAM) software and 2) the Defense Finance and Accounting service technicians. You claim that BAM has prevented more than \$3 billion in improper payments in approximately two and a half years. In fact, you state that ".....about 90 percent of our commercial payments are covered by BAM, we think it has essentially eliminated duplicate commercial payments based on internal reviews." But you concede that you have not done post-payments statistical sampling for commercial payments.a) Can you explain how you justify that you have essentially eliminated duplicate commercial payments when you have not done post-payment statistical sampling for commercial payments?b) Is there a reason DOD did not do post payment statistical sampling for commercial payments, which are two thirds of your improper payments, but did so with civilian and military pay?c) With respect to military and civilian payouts what type of verification checks are made prior to disbursement and are they followed to their original source?

Answer: The Internal Review Division of the Defense Finance and Accounting Service (DFAS IR) performed post-payment data mining reviews on contract payments for several years, most specifically looking for duplicate payments. Based on its 2010 final report having a finding of only 23 payment errors out of more than 400,000 payment transactions, it was determined that there was no longer a statistically significant error rate on which to base further reviews. Nonetheless, to ensure full compliance with the recent IPERA legislation, we are reinstating statistical sampling for FY 2012 reporting.

As mentioned above, post-payment data mining on contract payments had been performed by DFAS IR. However, given the statistical insignificance of the post-payment results, the decision was made that directing resources toward other efforts to prevent and detect commercial improper payments would yield more robust results. Again, and in full compliance with the new IPERA legislation, we have reinstated statistical sampling of commercial payments.

DFAS performs numerous pre-payment reviews in military and civilian pay, such as random pay account reviews (approximately 500 to 800 per service component), reviews of accounts with a pay change from the prior payday, military accounts affected by a recently implemented or previous systems or pay entitlement change, and review of all general and flag officer accounts. For civilian pay, there are database file "bumps" to ensure the same person is not being paid through more than one pay system to prevent duplicate payments, and reviews of all pay

accounts within the Executive Office of the President, the Military Service Secretaries, and other DoD Executive Service members, as well as random reviews within the civilian pay databases.

The post-payment verifications are not executed back to original source documents that are resident in personnel systems, but the pre-payment verifications are. However, post-payment technicians do have access to multiple data screens to look at previous payroll deductions, allotments, pay grade, locality pay rate, and other items affecting the amount disbursed, to identify anomalies that could indicate an improper payment. That said, we believe there are sufficient controls to permit reliance on information in the payroll systems as a basis for performing post payment reviews. This includes controls in place in our human resource organizations, reviews by supervisors/approving officials of time and attendance information and reviews of grade/step and locality information by supervisors in the normal course of business and during periodic performance reviews. Moving toward financial audit readiness will further reinforce confidence in our processes.

CHARTS No.: SHSGACFEDMGMTGOVT-02-002
 Hearing Date: May 25, 2011
 Committee: SHSGACFEDMGMTGOVT
 Member: Senator McCaskill
 Witness: USD(C) Hale
 Question: #2

Audits

Question: I realize that DOD is a department with an enormous amount of financial responsibilities. However, DOD, like every other governmental entity is subject to review by oversight agencies. DOD believes that the processes in place to prevent improper payments are part of a strong program. Your testimony states that two recent audits have cast doubt on DOD's program and further "the Department of Defense IG audit and GAO audit we feel were overstated and in some ways misleading." This statement cannot be taken lightly.a) I realize you addressed this issue in general terms in your letter to Chairman Carper dated May 19, 2011 in response to a letter from members of Congress dated April 20, 2011. Please state in specific terms what areas of both the IG and GAO audits were overstated or misleading and why?b) Did you agree with any of the recommendations made by the audits and if so have they been implemented? If they have not been implemented, what is your timeline to do so?

Answer: We value the constructive feedback provided by oversight entities such as the GAO and DoD IG. In the case of the IG report, regretfully, we did not more clearly provide our position prior to the report's finalization.

Specifically, in March, the Department's Inspector General concluded that the Department is not complying with Executive Order 13520, the President's order to identify high dollar improper payments to individuals and entities. The Inspector General's conclusion was based in part on a claim that we did not review some \$167.5 billion in quarterly distributions. This statement was misleading.

- \$73.1 billion of that amount involves routine annual transactions from the Treasury to the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund accounts. These are fully supported, internal, automated transfers between government agencies. Because these payments are reviewed when individually disbursed, it would be redundant to review the larger transfers for improper payments.
- Another \$27.3 billion represents disbursements between agencies, most of which are processed via the Intragovernmental Payment and Collection system. Again, these are fully supported, internal, automated transfers between government agencies and, according to OMB guidance, are not subject to review for improper payments.

The remaining \$67.1 billion called into question by the DoD Inspector General comes from a variety of sources: Army Corps of Engineer outlays, Tricare Management Activity payments, overseas financial office disbursements, payments in support of contingency operations

(including operations in Afghanistan), classified activities, and disbursements made by other agencies on DoD's behalf. Contingency payments over \$3,000 are subject to a thorough prepayment review when they are sent back to the DFAS center at Rome, New York, for review and disbursement. Classified payments, of course, are not disclosed publicly but are subject to review. Payments made by other agencies on the Department's behalf, such as those made in remote overseas locations by Department of State offices that cite DoD funds, are relatively small in dollar value, but will be reviewed more closely to ensure that appropriate controls are in place.

We also do not concur with the conclusions of a 2009 report by the GAO, which claims the Department failed to review more than \$300 billion in commercial payment disbursements. As noted above, these payments were subjected to rigorous prepayment reviews, post-payment controls, and reporting – all of which were consistent with OMB guidance at the time. The GAO recommended that these commercial payments be subject to a risk assessment and post-payment statistical sampling. In view of the recently enacted IPERA legislation, and more recent OMB guidance, we are taking the steps necessary to initiate a statistical sampling program, and anticipate our first reporting using this additional methodology for Fiscal Year 2012.

Yes, DoD does agree with some of the recommendations from both audits, and of these, some have been implemented. For example, based on the DoDIG recommendations the following are among those recommendations recently implemented:

1. The DoD Financial Management Regulation (FMR) Volume 4, Chapter 14, "Improper Payments," has been updated to include requirements from Executive 13520, the Improper Payments Elimination and Recovery Act (IPERA), as well as both OMB guidance documents that pertain thereto. It will be published in final form and posted to the DoD FMR web site not later than September 30, 2011.
2. The DoD agrees that not being able to tie back to an auditable Statement of Budgetary Resources (SBR) makes it challenging to ensure a fully auditable universe of payments is being reviewed for both high dollar and other over and under payments. However, until SBR auditability is achieved, we will provide all reasonable means of review.
3. The DoD will begin posting its quarterly, high dollar overpayments on the Comptroller's web site, starting with its report for FY 2011, Quarter 3. That posting will occur no later than September 30, 2011.

The GAO recommendation to which DoD agreed was to report the cost of recovery auditing efforts in the annual Agency Financial Report (AFR.) DoD included these figures in it

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Committee: SHSGACFEDMGMTGOVT
Member: Senator McCaskill
Witness: USD(C) Hale
Question: #3

Commercial Payments

Question: I would like to follow up on a statement made by Chairman Carper during this hearing. He mentioned that DOD plans on expanding the improper payments efforts so that all parts of the defense budget are examined for improper payments. He then made the important point that the department has not examined commercial payments in order to estimate the improper payments, so close to half of the DOD budget has not been examined.a) You were asked to reply to that statement and you answered that "it depends what you mean by 'examine' ". Please expand upon your initial response. Were the commercial payments reviewed and verified for accuracy by any other manner other than relying on BAM?

Answer: Our current post-payment process calls for a number of key checks or controls outside of the BAM process. A sampling is conducted in compliance with Certifying Officers legislation requirements. Contract close-out audits are also performed to determine propriety of contract payments; and all payments are subject to the required three-way match of obligation, invoice, and receiving report.

Commercial payments were subject to post pay statistical review until approximately 2006, when management determined that more robust results were being identified through self-reporting and analysis of the Improper Payments On-Line Database. That said, in order to be fully compliant with the recent IPERA legislation, DFAS has begun the steps necessary to institute a statistical sampling program for all its commercial payments. These results will be combined with the self-reported results that DoD has previously reported in its AFR, providing a hybrid result. We feel this hybrid result will yield the fullest possible coverage and transparency for the largest portion of DoD outlays. It will mirror the type of combined reporting that is currently reported for Military Pay and Civilian Pay, and is scheduled to be published in our FY 2012 AFR.

